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Bow Valley Industries Ltd.

1975 ANNUAL REPORT

Officers

DARYL K. SEAMAN, President
BYRON J. SEAMAN, Executive Vice-President
J. RICHARD HARRIS, Senior Vice-President
DONALD R. SEAMAN, Senior Vice-President
H. DONALD BINNEY, Senior Vice-President
ROBERT J. PHIBBS, Vice-President
H. KEITH LAZELLE, Vice-President and Secretary
WILLIAM C. HAY, Vice-President
H. F. COPE, Vice-President
DONALD G. THURSTON, Vice-President
JOHN WONDERLY, Vice-President
TREVOR A. LEGGE, Treasurer and Controller

Directors

FREDERIC J. AHERN, Vice-President, The United Corporation, New York
H. DONALD BINNEY, Senior Vice-President, Bow Valley Industries Ltd., Calgary
J. RICHARD HARRIS, Senior Vice-President, Bow Valley Industries Ltd., Calgary
WILLIAM A. HOWARD, Q.C., Barrister and Solicitor, Calgary
DARYL K. SEAMAN, President, Bow Valley Industries Ltd., Calgary
BYRON J. SEAMAN, Executive Vice-President, Bow Valley Industries Ltd., Calgary
DONALD R. SEAMAN, Senior Vice-President, Bow Valley Industries Ltd., Calgary
D'ALTON L. SINCLAIR, Financial Consultant, Toronto

Head Office

630 - 6th Avenue South West, Calgary

Overseas Offices

BOW VALLEY EXPLORATION (U.K.) LTD.
Lex House
3/5 Burlington Gardens
London W1X 1LE, England

BOW VALLEY INDUSTRIES LTD.
Five Pillars Park
JL General M.T. Haryono No. 58
P.O. Box 187 JKT
Jakarta, Indonesia

BOW VALLEY EXPLORATION (SINGAPORE) PTE. LTD.
Office No. 1
Jurong Marine Base
Singapore 22, Republic of Singapore

Transfer Agents

Common Stock
GUARANTY TRUST COMPANY OF CANADA, Calgary, Toronto, and Vancouver
THE BANK OF NEW YORK, New York

Preferred Stock, Series A
THE ROYAL TRUST COMPANY, Calgary, Winnipeg, Toronto, and Montreal

Registrars

Common Stock
GUARANTY TRUST COMPANY OF CANADA, Calgary, Toronto, and Vancouver
THE BANK OF NEW YORK, New York

Preferred Stock, Series A
GUARANTY TRUST COMPANY OF CANADA, Calgary, Winnipeg, Toronto, and Montreal

Stock Exchange Listings — Common Shares

Toronto Stock Exchange
American Stock Exchange
London Stock Exchange (Section 163(1)E

Auditors

PRICE WATERHOUSE & CO.

Legal Counsel

HOWARD, DIXON, MACKIE, FORSYTH, Calgary
PAUL, WEISS, RIFKIND, WHARTON & GARRISON, New York

Bankers

THE ROYAL BANK OF CANADA

COVER PHOTO:

ODIN DRILL during testing of the Brae discovery on Block 16/7 offshore the United Kingdom.

HIGHLIGHTS

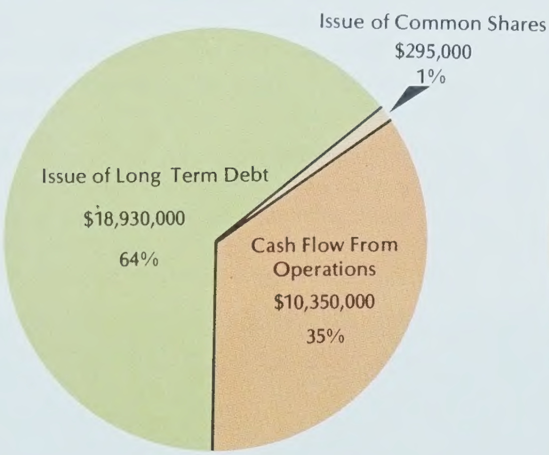
	1975	1974 (restated)
Gross income	$93,941,041	$73,426,379
Depreciation and depletion	$ 5,202,600	$ 4,995,905
Income before income taxes and extraordinary item	$ 6,514,593	$ 3,320,051
Provision for income taxes —		
Current	$ 834,206	$ 449,507
Deferred	$ 2,877,281	$ 1,219,770
	$ 3,711,487	$ 1,669,277
Income before extraordinary item	$ 2,803,106	$ 1,650,774
Extraordinary item	$ 276,715	$ —
Net income	$ 3,079,821	$ 1,650,774
Shares outstanding at year end	4,792,726	4,770,626
Net income per common share*	$ 0.52	$ 0.22

Note: The 1974 comparative figures have been restated to reflect the retroactive adoption of the policy of charging current research and development expenditures to operations.

* Based on the weighted average number of shares outstanding during the respective years (1975 — 4,771,822; 1974 — 4,768,873) and after dividend requirements on Series A preferred shares and second preference shares.

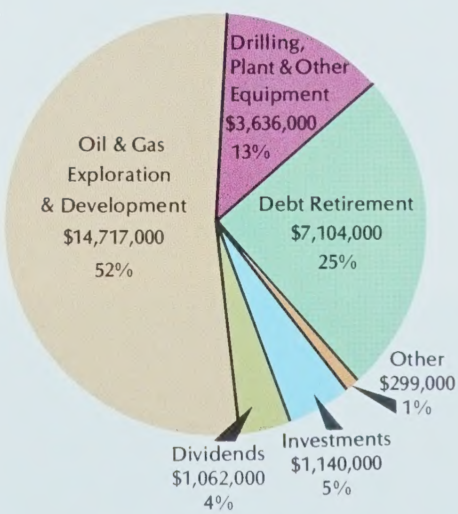
Source of Funds

TOTAL $29,575,000



Application of Funds

TOTAL $27,958,000



ANNUAL GENERAL MEETING

The 1975 Annual General Meeting of the shareholders of Bow Valley Industries Ltd. will be held in the McIntyre Room of the Calgary Convention Centre at 10:00 a.m. September 17, 1975, Calgary, Alberta, Canada.

PRESIDENT'S MESSAGE

Fiscal 1975 was a successful year for Bow Valley. In the U.K. sector of the North Sea, Bow Valley participated in an oil discovery that could be of significant importance to the Company, while the Service and Manufacturing operations generated record revenues and profits.

FINANCIAL results for fiscal 1975 recorded gross income of $93,941,000 compared to $73,426,000 for fiscal 1974, while net income was $3,080,000 and $1,651,000, respectively. This represents earnings of 52c per share versus 22c per share in the previous year.

The Company's cash flow of $10,350,000 was augmented during the year by bank loans of $18,930,000. Against this were applied net capital expenditures for the oil and gas operation of $14,717,000, other net capital assets expenditures of $3,636,000, debt retirement of $7,104,000 and sundry other items, so that the Company had a net increase in working capital of $1,617,000 for the year.

OPERATIONS of the Company are basically conducted under three categories and the highlights of fiscal 1975 can be summarized as follows:

OIL AND GAS EXPLORATION AND DEVELOPMENT

On May 5, 1975, it was announced that extensive testing on well 16/7-1A in the U.K. sector of the North Sea had been completed and stabilized flow rates of crude oil from seven different intervals totalled in excess of 22,000 barrels per day from a gross pay interval of 500 feet of continuous upper Jurassic sandstone. Bow Valley owns a 35 percent working interest in the discovery which could be reduced to 28 percent due to an option to The National Coal Board. On July 11, 1975, a second exploratory well was spudded on a separate structure 4.5 miles west of the discovery well.

In Block 25/4 offshore Norway, a successful appraisal well was completed on the Heimdal structure on June 16, 1975. Bow Valley has an 8 percent interest in the Heimdal field which is estimated to have recoverable gas reserves of 1.68 to 2.05 trillion cubic feet and approximately 28 million barrels of condensate. Negotiations are in progress for a gas purchase contract and a transportation agreement.

In the Mackenzie Delta, the Pelly B-35 was unable to drill beyond a high-pressure shale formation and was abandoned on February 15, 1975, after testing non-commercial shows of natural gas in several zones. A second well, Unark L-24, also tested non-commercial shows of natural gas in several zones and was abandoned on May 24, 1975. Sun will commence the drilling of a third exploratory test in the Mackenzie Delta in September 1975 and is currently reviewing several proposed locations for the drilling of a second well on the Unark structure, which should commence in early 1976.

In Alberta, Bow Valley has connected its gas reserves in the Medicine Hat field to market and will be connecting further gas reserves in the Wandering River and Airdrie areas to market during the coming year. The connection of these reserves will double Bow Valley's gas production.

SERVICE AND SUPPLY TO THE NATURAL RESOURCE INDUSTRIES

Oil and gas well drilling and the related supply business enjoyed a very profitable year. Although the drilling industry experienced less activity, the drilling divisions were able to operate more efficiently and improve their profit margins.

The drilling divisions that service the mining industry made a substantial acquisition during the year and the Company is now considered the largest diamond drilling contractor in Canada. Despite the difficulties that face the mining

FREDERIC J. AHERN, Director; DARYL K. SEAMAN, Director and President; D'ALTON L. SINCLAIR, Director.

WILLIAM A. HOWARD, Q.C., Director; BYRON J. SEAMAN, Director and Executive Vice-President.

DONALD R. SEAMAN, Director and Senior Vice-President; J. RICHARD HARRIS, Director and Senior Vice-President; H. DONALD BINNEY, Director and Senior Vice-President.

industry, the Company has increased revenues and profits considerably by branching out of British Columbia into other areas of Canada and the U.S.A.

The pipeline construction and plant maintenance division diversified from their normal operations and the increased activity resulted in higher revenue and greatly improved profit.

The aviation subsidiary also enjoyed a much improved performance in fiscal 1975. Helicopters were strategically located in areas of high activity and record profits were earned.

MANUFACTURE AND SUPPLY OF MACHINERY AND EQUIPMENT TO THE FOREST PRODUCTS, MINING AND CONSTRUCTION INDUSTRIES

Despite depressed conditions in the forest products and mining industries, the Vancouver-based manufacturing and supply divisions were able to increase gross revenues substantially. Inflationary costs, however, resulted in decreased margins and lower profits.

Heating equipment sales and profits registered a good gain in commercial and industrial applications and more than offset the reduction in sales of residential units.

THE CORPORATE TEAM saw a number of new executive appointments during the year and one retirement.

In April 1975, Henry C. Van Rensselaer, Vice-President of Finance and a Director of the Company, retired. His contribution to the success of Bow Valley over the past several years is gratefully acknowledged. The majority of the duties of his office was assigned to H. Keith Lazelle who was appointed a Vice-President of the Company.

At the same time, William C. Hay, H. F. Cope, Donald G. Thurston and John Wonderly were appointed Vice-Presidents and Trevor A. Legge was appointed Treasurer and Controller.

Messrs. Hay, Cope, and Wonderly previously held divisional management responsibilities while Messrs. Thurston and Legge held senior positions in the head office.

The record performance of the Company during fiscal 1975 could not have been attained without the loyal and conscientious support of all Bow Valley employees. The Company recognizes the importance of this contribution and earnestly endeavours to maintain policies that properly reward these efforts.

THE OUTLOOK for Bow Valley is excellent. During fiscal 1975, revenues and earnings were at record levels. With more than 2,000 dedicated people employed in exploration, manufacturing, and service operations in Canada and eight other countries, Bow Valley is building a large resource base in petroleum energy, and its experienced, competent staff of technical personnel is offering the latest equipment and services to the petroleum, mining, forest product, and manufacturing industries. This range of activity has changed Bow Valley from a small Canadian oil well drilling contractor in 1950 into an international natural resource company with a bright future. The development of Bow Valley's recent discoveries of petroleum will proceed as quickly as possible, and the cash flow from these major assets will have a very significant impact on Bow Valley's earnings in future years.

Bow Valley is fully aware of unfavourable political developments that have occurred in several countries where operations are conducted, but it is clear that the need to discover and develop energy is critical to the world's welfare. Bow Valley has worked closely with these countries to understand and accommodate their legitimate needs, and will carefully expand its operations in areas of promise and stability.

D. K. Seaman,
President.

August 8, 1975

ROBERT J. PHIBBS, Vice-President; WILLIAM C. HAY, Vice-President.

H. KEITH LAZELLE, Vice-President and Secretary; H. F. COPE, Vice-President.

TREVOR A. LEGGE, Treasurer and Controller; DONALD G. THURSTON, Vice-President; JOHN WONDERLY, Vice-President.

OIL AND GAS EXPLORATION AND DEVELOPMENT

Bow Valley's oil and gas exploration and development programs are administered through Bow Valley Exploration. During the 1975 fiscal year, Bow Valley invested $15,660,000 in oil and gas programs. This compares with the $8,829,000 invested during the previous year. These programs are being conducted in Canada and eight other countries.

CANADIAN EXPLORATION

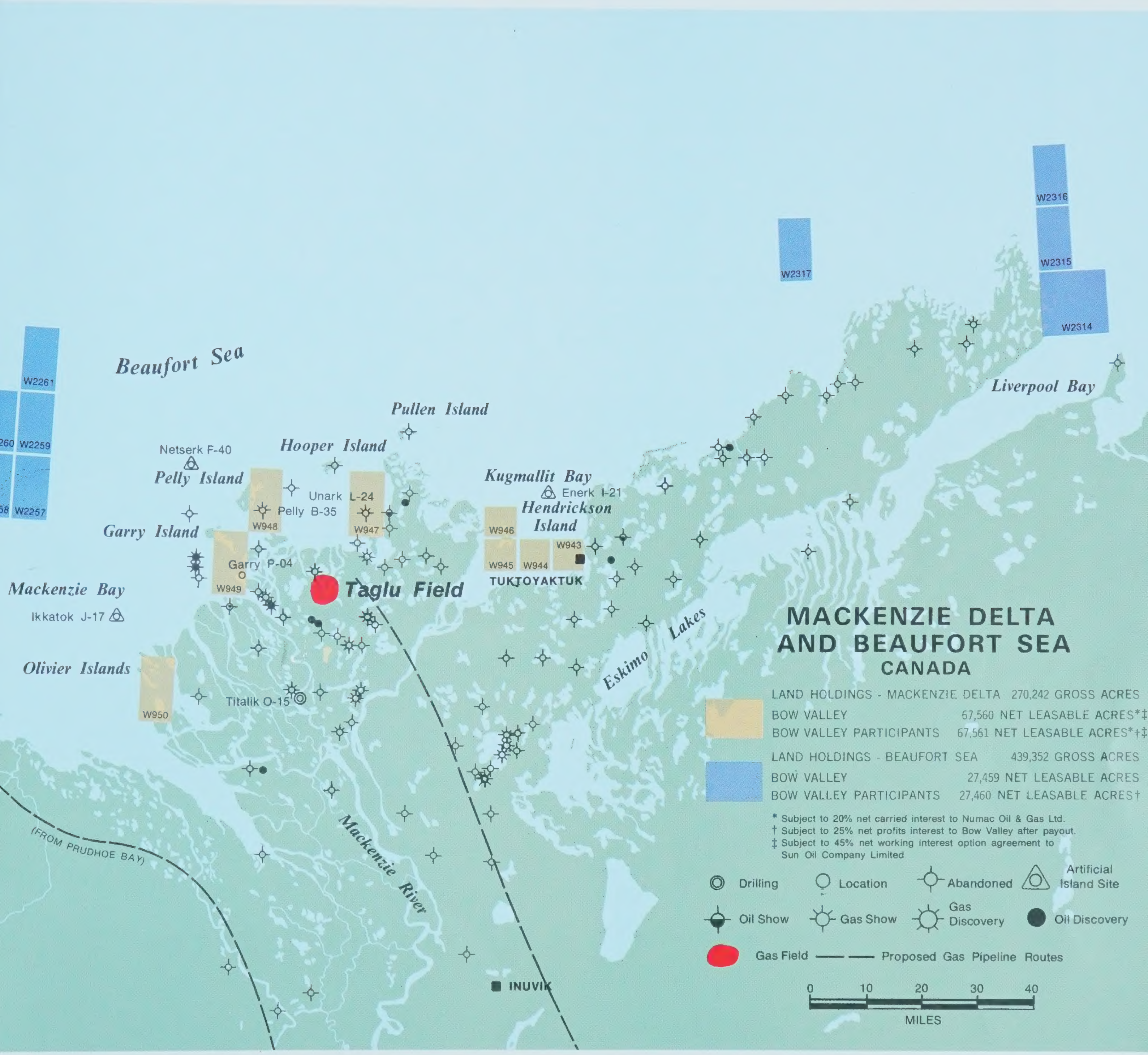
MACKENZIE DELTA

In addition to its land holdings in the Beaufort Sea, Bow Valley owns a 50 percent interest in eight permits comprising 270,242 acres located both onshore and offshore in the Mackenzie Delta area of northern Canada. The first discovery of oil in the Mackenzie Delta at Atkinson Point was made during the 1969-1970 winter drilling season. Extensive exploratory drilling has subsequently been completed throughout this region, resulting in numerous oil and gas discoveries, some in proximity to Bow Valley's acreage.

In early 1973, Bow Valley and its partner, Arctic Coast Petroleums Ltd., conducted a 580-mile on-ice seismic program that defined several interesting geological structures on this acreage. In December 1973, an agreement was signed with Sun Oil Company Limited whereby Sun had to drill two wells on the Unark structure and one well on the Pelly structure to earn a 45 percent interest in one permit, with the right to earn up to a 45 percent working interest in all eight permits by drilling a minimum of 12 wells on Bow Valley's permits. This agreement was concurrently approved by Numac Oil & Gas Ltd. which holds a 20 percent net carried interest in these Delta permits. Under the terms of the agreement, Sun paid $3,500,000, divided between Bow Valley and Arctic Coast, to receive the seismic and other technical work previously carried out on these permits. Sun has agreed to pay Bow Valley and Arctic Coast, in equal shares, $1,000,000 per year for eight years beginning January 1, 1975, or until either Sun releases all of its interest in these permits or net production revenues to Bow Valley and Arctic Coast from any discoveries on these permits exceed $1,000,000 per year. Under separate agreements, Bow Valley and Arctic Coast have agreed to pay Numac 20 percent of the $1,000,000 annual payments. In the event production revenue is obtained from the Delta permits, Sun is entitled to recover all prior cash and exploration costs out of a portion of production attributable to Bow Valley's and Arctic Coast's working interest. The agreements also provide that Bow Valley and Arctic Coast may, at their option, call upon Sun to provide non-recourse development financing for the entire project which would also be recovered out of a portion of Bow Valley's and Arctic Coast's production. All of the working interest earned by Sun is subject to its proportionate share of the 20 percent net carried interest to Numac. Arctic Coast's interest continues to bear a 25 percent net profits interest to Bow Valley.

In early 1974, Sun completed a 250-mile seismic program over this acreage which assisted Sun in selecting locations for its initial two-well exploratory drilling program. The first well, Unark L-24, was spudded on September 24, 1974. Technical difficulties resulting from a gas blowout at 12,346 feet necessitated redrilling the lower section of the hole. In April 1975, further mechanical difficulties were encountered at a depth of 12,510 feet. Sun ran casing to 12,375 feet

C. R. DE LUCA, Manager Co-ordination and Planning; W. F. CLARK, Land Manager; E. MILLER, Exploration Manager — Western Hemisphere.



Sun Unark L-24 in the Mackenzie Delta.

and, after testing non-commercial shows of natural gas in several zones, abandoned the well on May 24, 1975. The second well, Pelly B-35, was spudded on October 5, 1974. Although originally projected to 15,000 feet, drilling operations were terminated at 10,919 feet due to a high pressure shale formation. Tests conducted in several zones confirmed the existence of gas in non-commercial quantities, and the well was abandoned on February 15, 1975. Sun recently completed a 124-mile detailed seismic program over specific areas of interest on Bow Valley's permits to assist in the selection of drilling locations for the 1975-1976 winter drilling season. Sun must commence operations for the construction of a drill site for its third exploratory commitment on the Unark structure prior to January 31, 1976.

In a subsequent agreement, Sun has committed to drill an exploratory test on a seismic feature straddling the east boundary of Bow Valley's Permit W-949 during the 1975-1976 winter drilling season. The well will be drilled from an island on Bow Valley's lands to test a structure at a subsurface location underlying an adjacent permit owned by Standard Oil Company of British Columbia Limited. Sun will drill the well at its sole cost to earn a 37.5 percent working interest in 1,128 acres in Standard's Permit 3853. Bow Valley and its partners will earn a small overriding royalty in the same lands at no cost. The well is scheduled to spud on or about September 1, 1975, and will be drilled to a projected total depth of 10,500 feet. If this well is a discovery, Sun must drill a confirmation well on Bow Valley's Permit W-949.

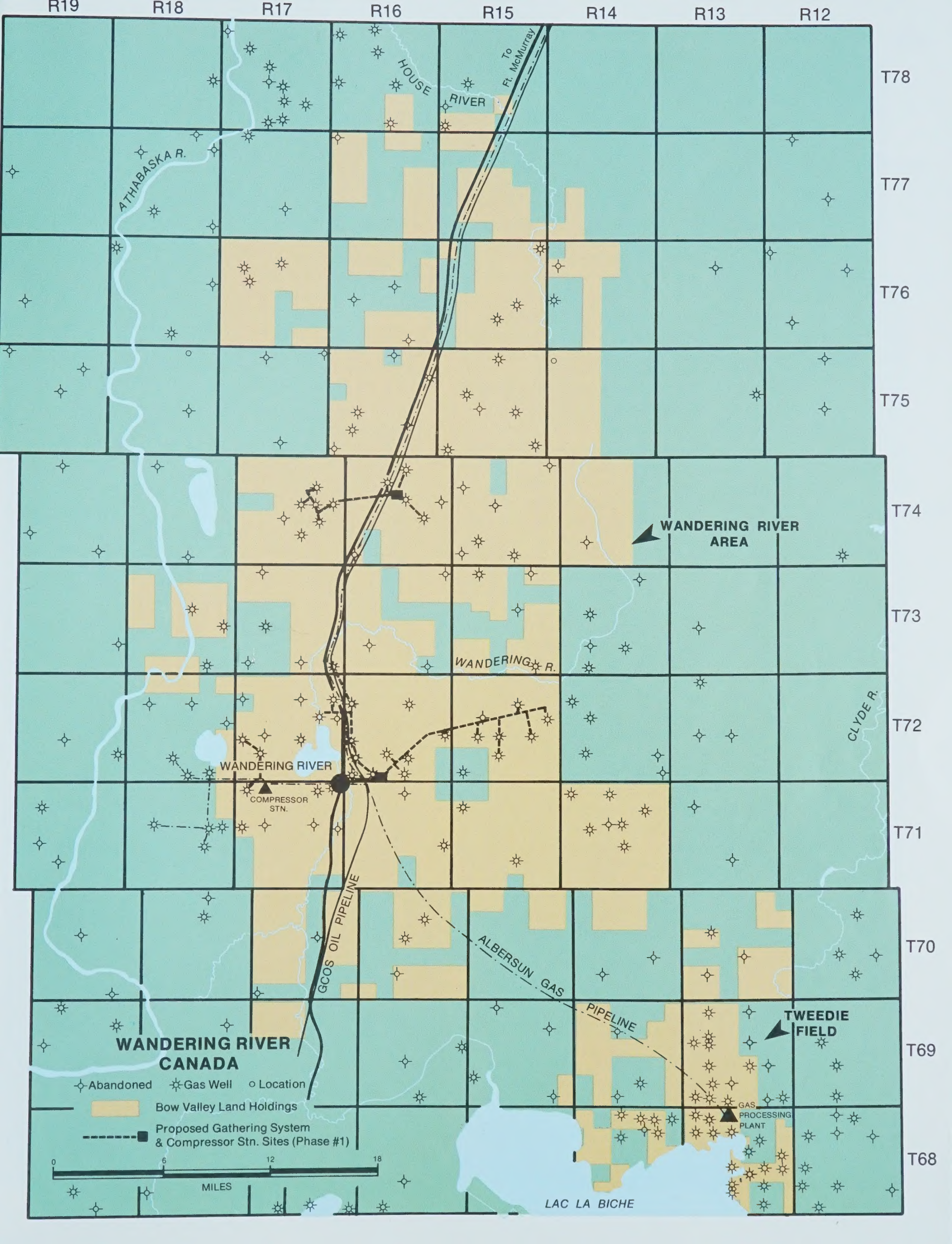
In early 1974, Canadian Arctic Gas Pipelines Limited filed applications and exhibits with regulatory authorities in Canada and the United States which are related to the design, construction, operation, and route of a 48-inch, $7 billion natural gas pipeline from Prudhoe Bay and the Mackenzie Delta to central North American markets. If the required approvals are forthcoming, initial deliveries could commence from the Mackenzie Delta in 1979 and from Alaska in 1980. Applications relating to the construction of a less expensive all-Canadian pipeline, known as the Maple Leaf Line, were filed with the National Energy Board in April 1975. This latter proposal would involve transporting only Mackenzie Delta gas through a 42-inch pipeline to link with the existing major transmission grid in Alberta, thereby facilitating deliveries to eastern and western Canadian markets commencing in 1978. Formal hearings pertaining to both pipeline applications are expected to commence in late 1975.

ARCTIC ISLANDS

Bow Valley owns a 2.22 percent interest in Panarctic Oils Ltd., a company organized by private industry and the Canadian Government to explore for and develop oil and gas in the Arctic Islands of Canada. Panarctic has discovered significant deposits of gas on Melville, King Christian, Thor, and Ellef Ringnes Islands and tested small volumes of oil on Ellef Ringnes, Thor, Cameron, and Ellesmere Islands. Panarctic's first "on-ice" drilling program, undertaken in the Hecla field offshore Melville Island during the 1973-1974 winter drilling season, confirmed the feasibility of deep-water drilling on stable ice. The success of this program has opened new offshore areas for exploration throughout the Arctic Islands region. Panarctic recently announced that proven gas reserves in the Arctic Islands are approximately 13 trillion cubic feet. A threshold level of 25 trillion cubic feet of proven reserves is believed necessary to justify construction of a large-diameter pipeline to connect this gas to market, and Panarctic has

Bow Helicopter in support at Wandering River.

A view of Wandering River in Northeastern Alberta.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T70
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T68
To Ft. McMurray
HOUSE RIVER
ATHABASKA R.
WANDERING RIVER AREA
WANDERING R.
CLYDE R.
WANDERING RIVER
COMPRESSOR STN.
GCOS OIL PIPELINE
ALBERSUN GAS PIPELINE
TWEEDIE FIELD
GAS PROCESSING PLANT
LAC LA BICHE
WANDERING RIVER CANADA
Abandoned
Gas Well
Location
Bow Valley Land Holdings
Proposed Gathering System & Compressor Stn. Sites (Phase #1)
0
6
12
18
MILES

organized extensive exploration and development programs to discover the necessary volumes. Working capital required by Panarctic in the conduct of its exploration programs is generated through the periodic issuance of shares to its participants; Bow Valley elected not to participate in the most recent Panarctic share issue which occurred on March 14, 1975.

WESTERN CANADA

Excluding wells drilled by Panarctic, Bow Valley participated in the drilling of 192 wells in Canada during the 1975 fiscal year. Because of adverse tax legislation recently established in Saskatchewan and British Columbia, all but one of these wells were drilled in the Province of Alberta.

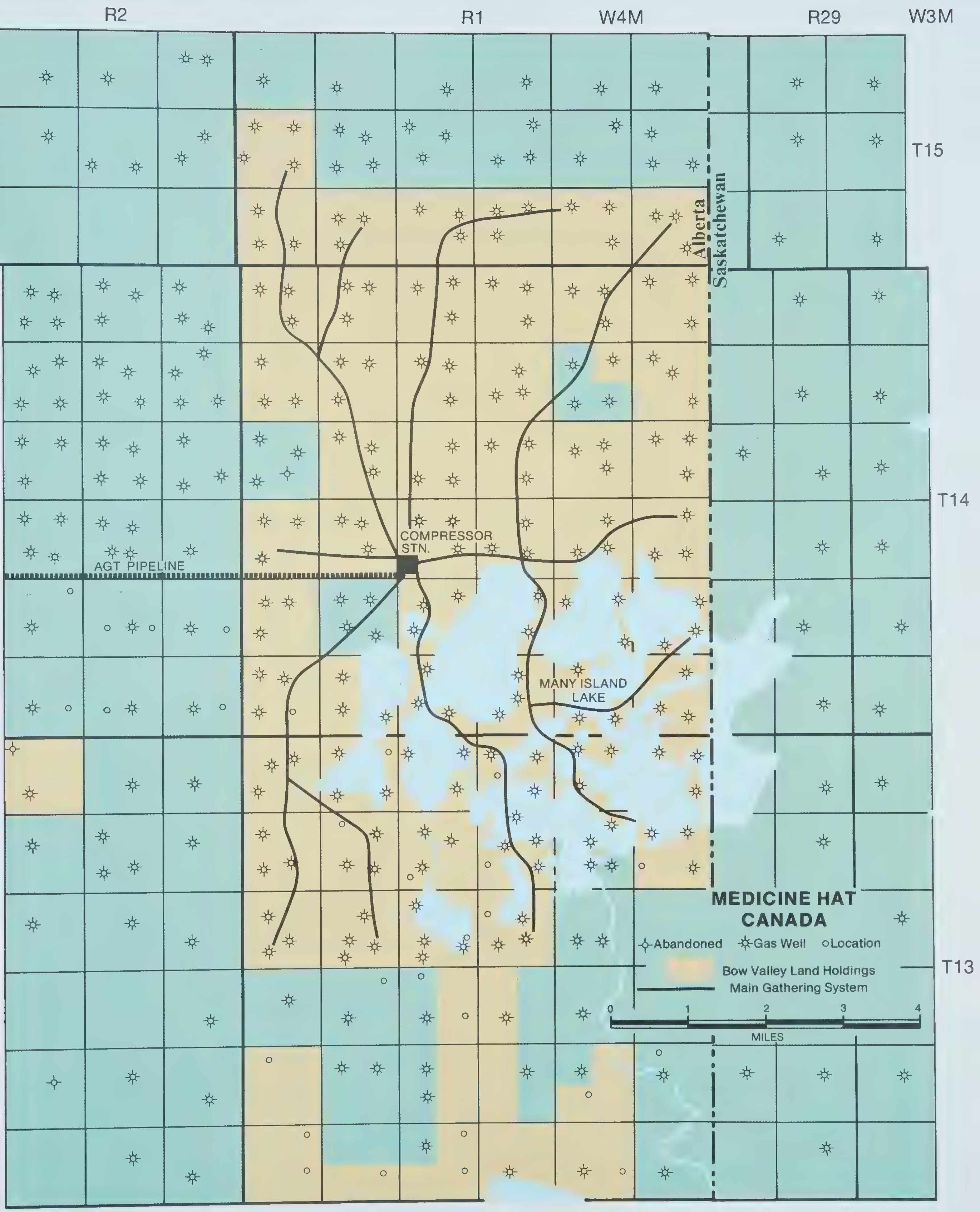
In the Medicine Hat area of southeastern Alberta, Bow Valley, in association with another Canadian company, has a major interest in a 35,520-acre shallow gas prospect. A development program involving the drilling and connection of 166 wells was completed in January 1975. Bow Valley owns a 50 percent working interest in 76 of these wells and approximately a 10 percent royalty interest in the remaining 90 wells, convertible to a 50 percent working interest after payout. A long-term gas purchase contract covering gas sales from this area was executed in 1974 and provides for an initial price of $0.60 per Mcf with price redetermination effective November 1, 1975, and each year thereafter. This field was connected on January 31, 1975, and is producing gas at a rate of 20.2 MMcf per day. Bow Valley's share of this production, net after royalty, is approximately 4 MMcf per day.

During the 1975 fiscal year, Bow Valley participated in the drilling of 15 wells in the Wandering River area of northeastern Alberta, of which 12 were completed as gas wells, bringing to 70 the number of gas wells completed in the area and available for market. Engineering studies are in progress, and construction of an extensive gathering system and compression facilities will commence in late 1975. A long-term gas purchase contract has been executed that calls for an initial price ranging between $0.73 per Mcf and $1.15 per Mcf; the actual price will be determined through negotiation between the Provincial and Federal Governments. Gas deliveries, at an initial rate of 28 MMcf per day, are expected to commence on April 1, 1976. Bow Valley's share of initial production from this field is expected to be 10 MMcf per day, net after royalty. Bow Valley currently holds a 59 percent interest in 471,040 gross acres in this area and is the operator.

In the Airdrie area of south-central Alberta, Bow Valley participated in the drilling of an important discovery that flowed gas at a rate of 15.5 MMcf per day and condensate at a rate of 237 barrels per day. A confirmation well, drilled one mile north of the discovery well, flowed gas at a rate of 4.3 MMcf per day and condensate at a rate of 76 barrels per day. One additional development well may be drilled, and this field is scheduled to be connected to market about July 1, 1976. Initial gas deliveries are estimated at 9 MMcf per day with Bow Valley's share amounting to 2.3 MMcf per day, net after royalty. Bow Valley holds an average 51 percent interest in 5,495 gross acres.

The connection of these gas reserves from the Medicine Hat, Wandering River, and Airdrie areas of Alberta will double Bow Valley's current gas production. The recent escalation of natural gas prices throughout western Canada has made it economical for Bow Valley to connect several additional smaller gas fields to market at an early date. Engineering and feasibility studies are in progress with a view to connecting seven of these fields to market during 1976, which will further increase Bow Valley's expanding gas sales.

Compressor station during construction at Medicine Hat, Alberta.



R2
R1
W4M
R29
W3M
T15
T14
T13
Alberta
Saskatchewan
COMPRESSOR STN.
AGT PIPELINE
MANY ISLAND LAKE
MEDICINE HAT
CANADA
Abandoned
Gas Well
Location
Bow Valley Land Holdings
Main Gathering System
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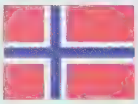
4
MILES

EASTERN CANADA

In fiscal 1975, Bow Valley sold its interests in the Rodney and Gobles oil fields in southern Ontario.

At May 31, 1975, Bow Valley owned various interests in 1,513,173 gross acres offshore from the Atlantic Coast. Considerable exploratory drilling has been conducted during the past several years without any major oil or gas successes in the vicinity of Bow Valley's acreage. Accordingly, Bow Valley is continuing its program of selective dispositions of land in this area.

INTERNATIONAL EXPLORATION



NORWAY

Bow Valley is a member of a group that owns a production licence on Block 25/4 offshore Norway on which a significant gas and condensate discovery was made during the fall of 1973. Detailed engineering and financial studies pertaining to the development of this field, known as Heimdal, have been in progress for some time, as have negotiations relating to a gas purchase contract and transportation agreement. Under the terms of the licence, the Norwegian state oil company, Den Norske Stats Oljeselskap A/S (Statoil), had the option to acquire at cost, to be paid out of production, up to a 40 percent interest in this discovery. Statoil exercised its maximum option on May 2, 1975, reducing Bow Valley's working interest in this discovery from 13 1/3 percent to 8 percent. Storting Proposition No. 104 dated February 28, 1975, in which the Norwegian Ministry of Industry recommended that Statoil exercise such option, states that the Paleocene reservoir in the Heimdal field has recoverable reserves of 1.68 to 2.05 trillion cubic feet based on Statoil's estimate of the most probable recoverable gas reserves in the main Heimdal structure, and that the estimated total recovery of stabilized condensate will be approximately 28 million barrels. A Paleocene appraisal well was spudded on the Heimdal structure on May 16, 1975, and reached a total depth of 8,556 feet on June 16, 1975. On July 5, 1975, the Norwegian Petroleum Directorate announced that the well had tested natural gas at a rate of 20 MMcf per day and condensate at a rate of 460 barrels per day.

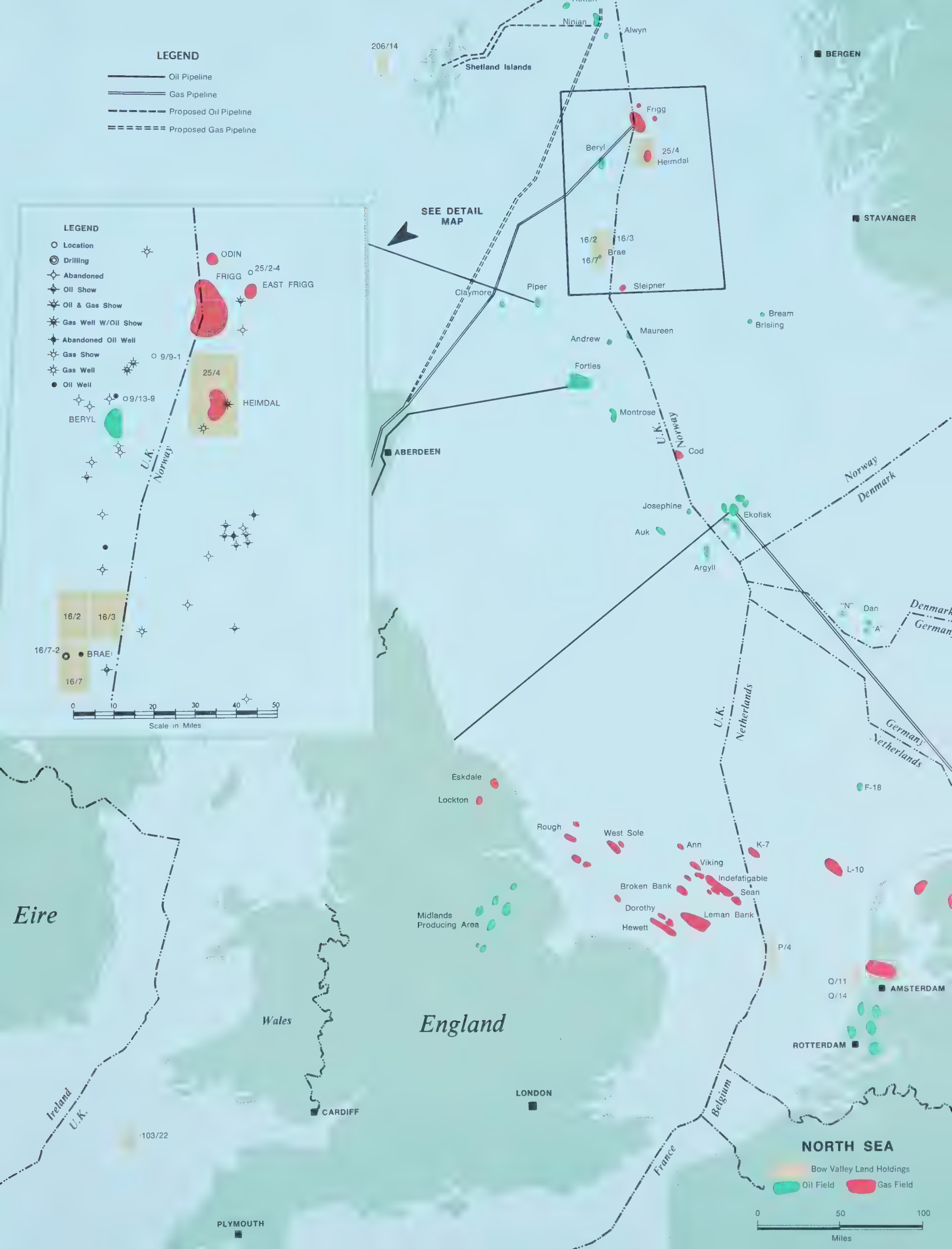
A 390-mile detailed marine seismic program will commence in August 1975 to further delineate a deeper Jurassic structure which may be drilled on this Block in 1976.

An exploratory well drilled in late 1974 on a separate structure from the Heimdal discovery was abandoned after encountering non-commercial indications of hydrocarbons.

UNITED KINGDOM

In the United Kingdom sector of the North Sea, detailed seismic surveys conducted over Blocks 16/2, 16/3, and 16/7 in early 1974 confirmed the existence of drillable anomalies on all three blocks. Bow Valley owns a 35 percent working interest in these blocks. An initial exploratory well, the 16/7-1A, was spudded on September 19, 1974, and reached a total depth of 15,695 feet on February 17, 1975. On May 5, 1975, the operator

F. J. WELLHAUSER, Exploration Manager — Europe/Africa/Middle East; R. A. McKENZIE, Manager Finance.



LEGEND
Oil Pipeline
Gas Pipeline
Proposed Oil Pipeline
Proposed Gas Pipeline
206/14
Shetland Islands
Ninian
Alwyn
BERGEN
Frigg
Beryl
25/4
Heimdal
SEE DETAIL MAP
STAVANGER
16/2
16/3
Brae
16/7
Sleipner
Claymore
Piper
Bream
Brisling
Maureen
Andrew
Forties
Montrose
U.K.
Norway
Cod
ABERDEEN
Josephine
Ekofisk
Auk
Argyll
Norway
Denmark
"N"
Dan
'A'
Denmark
Germany
Germany
Netherlands
U.K.
Netherlands
F-18
LEGEND
Location
Drilling
Abandoned
Oil Show
Oil & Gas Show
Gas Well W/Oil Show
Abandoned Oil Well
Gas Show
Gas Well
Oil Well
ODIN
25/2-4
FRIGG
EAST FRIGG
9/9-1
25/4
HEIMDAL
9/13-9
BERYL
U.K.
Norway
16/2
16/3
16/7-2
BRAE
16/7
0
10
20
30
40
50
Scale in Miles
Eskdale
Lockton
Rough
West Sole
Ann
K-7
Viking
L-10
Indefatigable
Broken Bank
Sean
Dorothy
Leman Bank
Hewett
Midlands Producing Area
P/4
Q/11
Q/14
AMSTERDAM
ROTTERDAM
Eire
Wales
England
LONDON
CARDIFF
Ireland
U.K.
103/22
Belgium
France
PLYMOUTH
NORTH SEA
Bow Valley Land Holdings
Oil Field
Gas Field
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announced that an extensive testing program had been completed. Stabilized flow rates of crude oil from seven different intervals totalled in excess of 22,000 barrels per day within a gross pay interval of 500 feet of continuous Upper Jurassic sandstone at a depth of approximately 12,000 feet. Further drilling will be required to define the extent of the discovery, recently named the Brae field. The National Coal Board has an option to acquire at cost, for cash, a 20 percent interest in the production licence covering Blocks 16/3 and 16/7 which would reduce Bow Valley's interest in these two blocks from 35 to 28 percent. Such option is exercisable within 120 days from the date on which the operator notifies the National Coal Board that petroleum has been discovered in commercial quantities; such notice was given on May 20, 1975. On July 11, 1975, a second exploratory well was spudded on Block 16/7. This Paleocene test, the 16/7-2, is being drilled on a separate structure approximately 4.5 miles west of the Brae discovery.

In addition to its interest in the United Kingdom North Sea, Bow Valley owns an 8.33 percent interest in Block 103/22 in the Celtic Sea offshore from the United Kingdom, where marine seismic surveys have been conducted and one well may be drilled in 1976.

Interpretations based upon seismic surveys previously conducted over Block 206/14 offshore from the Shetland Islands indicated this area to be only marginally prospective. Accordingly, this block was relinquished by Bow Valley and its partners on June 2, 1975.

During 1973, Bow Valley joined with other companies in three joint ventures formed for the purpose of applying for offshore acreage in the northern, central, and southern portions of the United Kingdom sector of the North Sea. Bow Valley and its partners have acquired considerable non-exclusive seismic data over all areas of interest, and an interpretation of the data is underway.

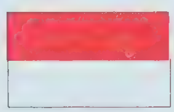
NETHERLANDS

Bow Valley owns interests varying from 6.5 percent to 9.89 percent in Blocks Q/11, Q/14, and P/4 offshore from the Netherlands. Marine seismic programs have been conducted over each of these blocks. Bow Valley participated in the drilling of an exploratory well on Block Q/11 in late 1969 that, although abandoned, tested gas in the Bunter sand. A 156-mile detailed marine seismic program is expected to commence over this block in August 1975. If the results of this survey prove encouraging, a second well may be drilled on Block Q/11 during late 1975.

ABU DHABI

Under the terms of the 1970 Concession Agreement, Bow Valley and its partners relinquished 25 percent of the concession area prior to June 6, 1973, and a further 25 percent was relinquished prior to June 7, 1975. The assignment of 50 percent of Bow Valley's 20 percent working interest in this property to Canadian Superior Oil Ltd. was approved by the Ruler of Abu Dhabi in May 1975. Bow Valley's interest in this concession is also subject to the Ruler's right to acquire, at cost, a 50 percent working interest in the concession which, if exercised, would further reduce Bow Valley's working interest to 5 percent. Two exploratory wells, drilled during the 1974 fiscal year, tested crude oil at rates in excess of 4,000 and 5,000 barrels per day, respectively. A third well on this structure, which has now been named the Arzanah field, was completed as an oil well on March 24, 1975. The first two wells drilled in this field will be completed for production in 1975 after which all three wells will produce into temporary storage facilities for a period of up to six months. Future development of this field will depend upon the results of these field tests.

In March 1974, Bow Valley and four other Canadian oil and gas companies were awarded an additional concession offshore from Abu Dhabi. In the opinion of Bow Valley, marine seismic surveys conducted over both areas did not confirm the existence of drillable anomalies, and Bow Valley elected to relinquish its interest in this acreage.



INDONESIA

In April 1972, Bow Valley was awarded an onshore contract area containing 67,753 acres in the Palembang basin of southern Sumatra. In January 1973, Bow Valley assigned 60 percent of its interest to a group of four companies. In April 1974, agreement was reached with Toyo Oil

SUMMARY OF OIL AND GAS ACREAGE AS OF MAY 31st, 1975

		Type of Interest					
		Working Interest (1)		Royalty Interest (2)		Other Interests (3)	
Location	Type of Ownership	Gross Acres	Net Acres	Gross Acres	Net Acres	Gross Acres	Net Acres
A. CANADA							
1. Alberta	Leases	1,002,994	500,913	330,285	10,424	278,125	22,066
	Petroleum & Natural Gas Reservations	222,240	103,652	80,000	1,587	60,000	2,184
	Petroleum & Natural Gas Permits	26,847	19,823	8,160	122	—	—
	Drilling Reservations	55,040	22,992	6,400	582	15,520	606
	Natural Gas Licences	289,860	107,564	—	—	—	—
2. Atlantic East Coast	Exploratory Permits	1,513,173	153,240*	1,603,787	5,345*	—	—
3. Arctic Islands	Exploratory Permits (4)	2,335,044	107,001*	881,394	3,187*	738,571	5,335*
4. Beaufort Sea	Exploratory Permits	439,352	27,459*	—	—	439,352	6,865*
5. British Columbia	Leases	13,551	2,099	—	—	12,927	1,408
6. Hudson Bay	Exploratory Permits	—	—	898,431	8,984*	—	—
7. Mackenzie Delta	Exploratory Permits (5)	270,242	67,560*	—	—	270,242	16,890*
8. Saskatchewan	Leases	17,358	9,536	3,576	508	11,576	429
9. Yukon-Northwest Territories	Exploratory Permits	96,404	24,101*	270,474	1,048*	—	—
	TOTAL CANADA	6,282,105	1,145,940	4,082,507	31,787	1,826,313	55,783
B. FOREIGN							
1. Abu Dhabi	Concession Area	388,195	38,820	—	—	—	—
2. Egypt	Concession Area	1,111,968	222,394	—	—	—	—
3. Indonesia	Technical Assistance Contract Area	67,753	20,326	—	—	—	—
4. Maldive Islands	Petroleum Exploration Licences	20,855,680	714,706	—	—	—	—
5. Netherlands	Exploration Licences	86,016	7,064	—	—	—	—
6. Norway	Production Licence	129,480	10,358	—	—	—	—
7. United Kingdom	Production Licences (6)	277,545	66,669	—	—	—	—
8. Viet Nam	Exploration Concessions	3,396,714	700,689	—	—	—	—
	TOTAL FOREIGN	26,313,351	1,781,026	—	—	—	—
	TOTAL WORLD	32,595,456	2,926,966	4,082,507	31,787	1,826,313	55,783

(1) Gross acres represent the total of the acreage in which Bow Valley has varying working interests. Net acres represent Bow Valley's interest in the gross acres.

(2) Gross acres represent the total of the acreage in which Bow Valley has varying royalty interests. Net acres represent Bow Valley's interest in the gross acres.

(3) Gross acres represent the total of the acreage in which Bow Valley has varying net profit and reversionary interests. Net acres represent Bow Valley's interest in the gross acres.

(4) Excluding acreage owned by Panarctic. As of March 31st, 1975, Panarctic held working interests in 81,613,404 gross acres and 53,704,155 net acres. Bow Valley holds a 2.22 percent interest in Panarctic.

(5) Subject to 45 percent working interest option agreement to Sun Oil Company Limited.

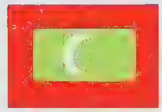
(6) Includes 50,311 gross acres and 4,192 net acres comprising Block 206/14 offshore from the Shetland Islands relinquished on June 2, 1975.

* These figures have been adjusted by a reduction of 50 percent to reflect the revocation of Oil and Gas Land Order 1.1961 effective April 15, 1970.

Development Corporation, a large Japanese company, whereby it received a 25 percent interest in return for financing certain work obligations and assisting the group in obtaining essential oilfield equipment and supplies. Both assignments were approved by Pertamina, the Indonesian national oil company. Following completion of extensive seismic and gravity programs, a three-well exploratory drilling program was undertaken during 1974. One of these wells, the Kampong Minyak No. 1, flowed crude oil from a shallow zone at a rate of 408 barrels per day. A four-well appraisal program to delineate the limits of the Kampong Minyak structure commenced in late 1974, and two of these wells were completed as oil wells. Future exploration plans for this area will depend upon the results of a detailed review of all available technical data, which should be completed before October 1975. Bow Valley is the operator for the group and owns a 30 percent interest.

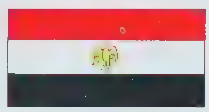
VIET NAM

In July 1973, Bow Valley and its partners were awarded two concessions in the South China Sea offshore from the Republic of Viet Nam. In May 1974, agreement was reached with Societe Nationale des Petroles d'Aquitaine whereby it would receive a 35 percent undivided working interest in one of the concessions by committing to finance certain exploration work on this concession during the first three years. Aquitaine assigned one-half of its interest to Mitsubishi Petroleum Development Corporation. Both assignments were approved by the previous government in February 1975, reducing Bow Valley's interest in this concession from 25 to 16.5 percent. Bow Valley retains a 25 percent interest in the second concession. A 4,000-mile marine seismic program was conducted over the acreage during early 1974. Bow Valley, as technical operator, supervised all acquisition, processing, and interpretation of the data. Several drilling locations were selected, and bottom sampling surveys were completed earlier this year in preparation for a four-well exploratory drilling program to have commenced in July 1975. The overthrow of the government of the Republic of Viet Nam forced a postponement of these drilling plans. Bow Valley and its partners are of the opinion that a resumption of operations, on terms and conditions acceptable to the group, is entirely possible, and efforts to contact the new Vietnamese administration are in progress.



MALDIVE ISLANDS

Bow Valley and its partners have acquired 4,800 miles of reconnaissance and detailed marine seismic data over this large concession area located off the southwestern coast of India. Portions of the data are being reprocessed and interpreted with a view to drilling an initial exploratory well in early 1976. In January 1975, the Maldivian authorities approved a cross-assignment of interest with Mitsubishi Petroleum Development Corporation whereby Mitsubishi acquired a 10 percent undivided working interest in Bow Valley's Maldivian concession in exchange for a 50 percent interest in Mitsubishi's recently awarded concession to the north. Bow Valley owns a 3.94 percent interest in the southern concession and a 2.19 percent interest in the northern concession.



EGYPT

In December 1974, the Egyptian General Petroleum Company awarded Bow Valley and its partners a 1,111,968-acre onshore concession east of Cairo. A 450-mile reconnaissance seismic program commenced over the concession in June 1975. Bow Valley owns a 20 percent interest in the concession.

OPERATIONS

Rapid increases in international crude oil and natural gas prices have touched off a struggle between the Canadian Federal Government and the governments of the western producing provinces with respect to the sharing of domestic oil and gas revenues generated through various forms of taxation including royalties. One of the results has been numerous and complex changes in royalty regulations by the provinces, including the adoption, by the Province of Alberta where Bow Valley derives approximately 85 percent of its production, of higher oil and gas

royalties that vary with price. Since Bow Valley reports its production and sales of crude oil and natural gas in amounts net after royalty, the effect of these extraordinary royalty increases has been to reduce the reported amount of production and reserves as of May 31, 1975. However, net oil and gas sales after royalties, in dollar amounts, rose in response to price increases realized on these products during the same period.

Bow Valley's proven reserves of crude oil, natural gas liquids, and natural gas are determined annually by McDaniel Consultants (1965) Ltd. and adjusted to May 31st by Company engineers. At May 31, 1975, crude oil reserves, net after royalty, of 5,457,847 barrels were eight percent lower than the reserves one year earlier. Although crude oil reserves, net after royalty, at May 31, 1974, had previously been reported as being 6,757,150 barrels, these estimates were subsequently adjusted to 5,960,768 barrels to reflect further royalty changes which occurred during 1974. This decline was principally due to the sale of Bow Valley's Rodney and Gobles oilfields in southern Ontario during the 1975 fiscal year, and to the natural depletion of Bow Valley's older fields. Net reserves of natural gas liquids, amounting to 509,224 barrels, were relatively unchanged from reserves reported one year earlier. Net natural gas reserves were 171 billion cubic feet, 11 percent lower than reserves reported one year earlier, due almost entirely to natural gas royalty increases which occurred during the 1975 fiscal year.

Bow Valley's production and sales of crude oil, natural gas liquids, and natural gas are derived exclusively from fields in Canada. Net crude oil production after royalties for the 1975 fiscal year amounted to 442,339 barrels which was 24 percent lower than crude oil production one year earlier. Production of natural gas liquids after royalties of 29,441 barrels was 11 percent higher than the previous year. Net natural gas production after royalties of 6.2 billion cubic feet was six percent lower than production during the same period one year earlier. The decline in production of crude oil and natural gas during 1975 is mainly a result of increased royalties.

Excluding wells drilled by Panarctic Oils Ltd., Bow Valley participated in the drilling of 204 gross wells, or 91.81 net wells, during the 1975 fiscal year. Of this total, 180 gross wells were completed as oil or gas wells, and the remainder were abandoned. The following table outlines the drilling activity undertaken by Bow Valley during the last three fiscal years.

Exploratory Wells Drilled

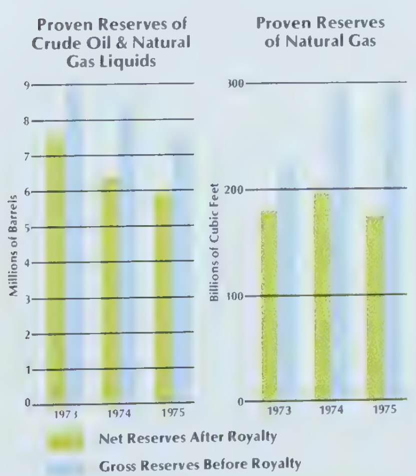
Fiscal Year Ended May 31,	Oil Wells Gross	Oil Wells Net	Gas Wells Gross	Gas Wells Net	Dry Holes Gross	Dry Holes Net
1973	3	1.50	22	9.61	28	7.23
1974	6	1.17	17	7.56	24	6.48
1975	5	1.06	18	5.22	18	5.77
TOTAL	14	3.73	57	22.39	70	19.48

Development Wells Drilled

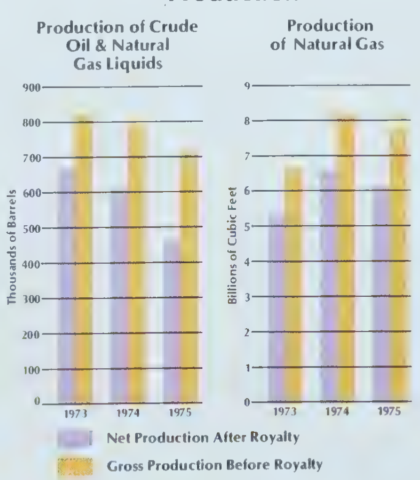
Fiscal Year Ended May 31,	Oil Wells Gross	Oil Wells Net	Gas Wells Gross	Gas Wells Net	Dry Holes Gross	Dry Holes Net
1973	4	1.00	14	5.65	—	—
1974	3	1.04	24	13.19	3	1.55
1975	5	1.35	152	76.82	6	1.59
TOTAL	12	3.39	190	95.66	9	3.14

Although proven reserves of crude oil, natural gas liquids, and natural gas exist in the Heimdal field offshore Norway, the Brae field offshore the United Kingdom, and the Arzanah field offshore Abu Dhabi, Bow Valley has elected to defer taking its share of these substantial foreign reserves into its accounts until individual development plans have been completed and approved by the respective governments.

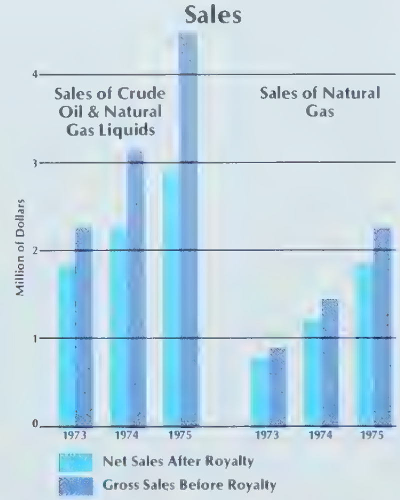
Reserves



Production



Sales



SERVICE AND SUPPLY TO THE NATURAL RESOURCE INDUSTRIES

CONTRACT DRILLING — OIL AND GAS

The oil and gas contract drilling operations of Bow Valley showed improved earnings for fiscal 1975 despite the unsettled conditions that plagued the industry. The struggle between the Federal and Provincial governments over taxation of the oil and gas industry in Canada was largely responsible for many rigs leaving the country and as at May 31, 1975, there were 274 rigs available for work in western Canada compared to 330 rigs one year ago.

The decreased activity was evident as Hi-Tower and Sedco in fiscal 1975 drilled 567 wells for a total footage of 1,807,133 feet compared to 665 wells and 2,037, 593 feet last year. The drilling divisions were able to improve their profitability through increased efficiencies.

Bow Valley is one of the largest oil well drilling contractors in Canada. Hi-Tower operates 15 rigs with depth capacities ranging from 3,000 to 20,000 feet while Sedco has 20 rigs with depth capacities from 1,000 to 6,000 feet. Hi-Tower's rigs are located in Alberta, northeastern British Columbia and the Mackenzie Delta. Sedco's shallower rigs are active in Alberta, Saskatchewan, the Northwest Territories, Montana, and Kansas.

The Commonwealth Hi-Tower Arctic Joint Venture enjoyed long term contracts this past year and drilled 65,070 feet to their March 31, 1975 year end, compared to 61,200 feet for the same period one year ago. A rig disposal was also a significant contributor to income. Bow Valley has a 50 percent interest in the joint venture which operates three rigs in the Arctic Islands with depth capacities of 6,000 to 18,000 feet.

Drillarctic, a joint venture in which Bow Valley has a 33 1/3 percent interest, operates a 16,000 foot diesel electric rig in the Arctic Islands and for the year ended May 31, 1975, drilled 8,062 feet compared to 6,025 feet in fiscal 1974.

The ODIN DRILL, a self-propelled semi-submersible drilling rig, commenced drilling in the North Sea on July 3, 1974. The rig is operated by Oslo Drilling A/S in which Bow Valley has a 20 percent interest. The partnership's fiscal year end is December 31 and at that time the rig was on its second well and had recorded 180 revenue days on location.

Commonwealth Hi-Tower Rig #2, on location in the Arctic.

J. A. NIEDERMAIER, General Manager, Commonwealth Hi-Tower Arctic Joint Venture; S. W. PORTER, General Manager, Hi-Tower Drilling; R. M. McGHEE, General Manager, Sedco Drilling.

Hi-Tower crew on Rig #9 on location in Alberta.

CONTRACT DRILLING — MINING

Connors Drilling Ltd. of Vancouver, British Columbia, Bow Valley's mining contract drilling subsidiary, had an excellent year in fiscal 1975 with sales and net income registering a substantial increase over any previous year.

Connors' subsidiary in the United States, Connors Drilling Inc., also registered a record year in both sales and net income.

During fiscal 1975 Connors Drilling Ltd. purchased all the western Canadian branches and the Thetford Mines, Quebec branch of Inspiration Drilling Operations, a division of Dresser Industrial Products Ltd.

H. CAMERON, Manager, Connors Drilling Ltd.; H. G. BRYDEN, Administrative Assistant.

During the year, Connors Drilling Inc., in an expansion program designed to serve the mining industry throughout the western United States, opened branches in Tucson, Arizona and Spokane, Washington.

Footage drilled by Connors Drilling Ltd. amounted to 1,163,919 feet for the year compared to 509,795 feet for the previous year.

Although increased business was enjoyed by most Connors' divisions, a marked decline in activity was noted in British Columbia. The dramatic reduction of exploration expenditures in this Province can only be attributed to the adverse effects of Bill 31, The Mineral Royalties Act, and Bill 64, The Mineral Land Tax Act, which jeopardize the viability of the mining industry in the Province of British Columbia.

As a result of the recent expansion, Connors Drilling Ltd. is now considered the largest diamond drilling contractor in Canada with facilities strategically located across Canada and the western United States.

PIPELINE CONSTRUCTION AND PLANT MAINTENANCE

Resolute Construction Ltd. and Wonderly & Kershaw Petrochemical Services Ltd., Bow Valley's pipeline construction and plant maintenance subsidiaries, both enjoyed increased revenues and profits in fiscal 1975. The companies diversified their operations during this period with a water and sewer contract as well as a pulp and paper plant maintenance contract. This, together with small-inch pipeline construction and maintenance contracts on gas plants and oil refineries, resulted in revenue increases of almost 60 percent. Profit increases were even higher.

Connors new branch in Thetford Mines, P.Q.

D. A. NICOLSON, General Manager, Wonderly & Kershaw Petrochemical Services Ltd.; G. A. MARTIN, General Manager, Resolute Construction Ltd.

While restrictions placed on the export of oil and gas have not been in the best interests of these subsidiaries, encouragement by the Government of Alberta for the development of processing industries in the petrochemical field is expected to increase activity in pipeline and plant construction in Alberta.

Water and power line contract in Alberta.

AVIATION SERVICES

Bow Helicopters Ltd. had a substantial improvement in both revenues and profits in fiscal 1975. The positioning of aircraft in areas of high activity was largely responsible for this increase. Work included firefighting, erection of transmission towers, support services for coal exploration and oil and gas well drilling, and helicopter skiing. Another significant contribution to the subsidiary's performance is an enviable safety record . . . 21 consecutive months of accident-free flying.

E. J. AMANN, Operations Manager; J. R. PRENDERGAST, General Manager, Bow Helicopters Ltd.; B. H. BECKER, Contracts Manager.

Bow Helicopters operating in The Rocky Mountains.

Bow Helicopters operates 15 helicopters throughout western and northern Canada. It maintains headquarters at Calgary, Alberta, where most of its fleet of helicopters is based. Facilities are also maintained in British Columbia at Golden, Mica Creek, and Valemount, with another base at Inuvik, Northwest Territories.

OILFIELD EQUIPMENT AND SUPPLY

Cardwell Supply had a significant increase in profits in fiscal 1975. Certain oilfield equipment and supplies were in short supply and selling prices were high. Cardwell was able to locate a source of supply and registered record profits. The company distributes its products through five stores in Alberta and British Columbia.

Narwhal Arctic Services is a limited partnership in which Bow Valley holds a 60 percent interest and Santa Fe-Pomeroy Canada Limited 40 percent.

P. V. EDWARDS, General Manager, Cardwell Supply; T. V. CALLAGHAN, Supervisor of stores.

T. H. WILSON, Operations Manager; K. J. STEPHENS, Logistics Manager, L. D. HEROD, project administrator, D. T. JUMPSEN, General Manager.

Narwhal's revenue and profits were higher in fiscal 1975; profit margins, however, were lower.

Narwhal has established a supply depot at Resolute Bay in the Arctic Islands and maintains an inventory of casing, cement, drilling muds, steel, lumber, and dry goods. Facilities are also provided for air-transport loading and unloading as well as for the movement of material by water. Construction activity during the year involved the building of a new townsite at Resolute Bay. This contract and the contract for moving the old townsite should be completed this summer.

Reduced drilling activity in the Arctic Islands will have a direct effect on the Resolute Bay operation. Alternative projects are currently being studied to replace the anticipated loss of the sea-lift operation.

POLLUTION CONTROL EQUIPMENT AND SERVICES

Western Research & Development Ltd., Bow Valley's environmental control subsidiary, experienced a successful year. Gross sales increased 32 percent and profits, while comparatively modest, were much improved over last year. To accommodate the increased business activity, new service and instrumentation facilities were leased. A 13,000-square foot modern laboratory and manufacturing plant will now allow for further expansion of Western's operations.

Consulting activities continued at a high level. Industrial plant site selection and environmental impact projects were undertaken along with increasing involvement in noise pollution abatement studies, dust collection equipment testing and evaluation. The instrument marketing program resulted in increased coverage in Canada and some parts of the U.S. Of major technological importance was the sale of a continuous stack emission monitoring system to the U.S. Environmental Protection Agency. Based on government acceptance of the system, further sales to the U.S. market are anticipated. A contract research project for the Alberta Department of the Environment was successfully completed further highlighting the diversity of Western Research & Development Ltd.

E. M. BERLIE, Manager, Consulting Services; J. LUKACS, General Manager, Western Research & Development Ltd.

DATA PROCESSING

Digitech Ltd., a fully-integrated exploration data processing company, continues to report losses. Bow Valley has an 11 percent interest in Digitech which could be increased to 14 percent upon the conversion of a loan.

Western Research laboratory facilities in Calgary.

MANUFACTURE AND SUPPLY OF MACHINERY AND EQUIPMENT TO THE FOREST PRODUCTS, MINING AND CONSTRUCTION INDUSTRIES

FOREST PRODUCTS AND MINING EQUIPMENT AND FOUNDRY SALES

Mainland Foundry & Engineering Ltd. and Mainland Industrial Supply, now operating as two separate entities with a common head office in Vancouver, enjoyed excellent growth in their sales volumes for the fiscal year but were unable to maintain the same earnings as in the previous year.

As a result of the worldwide depressed market in the forest products industry, Mainland has increased its activities in the mining and construction industries across Canada. It has also successfully developed a share of the secondary industry market, particularly in the provinces of Ontario and Quebec.

The addition of the electric furnace to Mainland's Foundry Division has opened many new markets for its products both in eastern Canada and in the United States. These markets will be further expanded as more of the division's production falls into the steel and ductile iron casting category.

During the fiscal year, Mainland accomplished another major step towards the planned consolidation of operations in the Vancouver area by moving into its new and larger machine shop facility at its Richmond site. Plans are nearing completion for the relocation to the same site of the downtown offices and supply warehouse.

Mainland and Elworthy equipment installed in a sawmill in British Columbia.

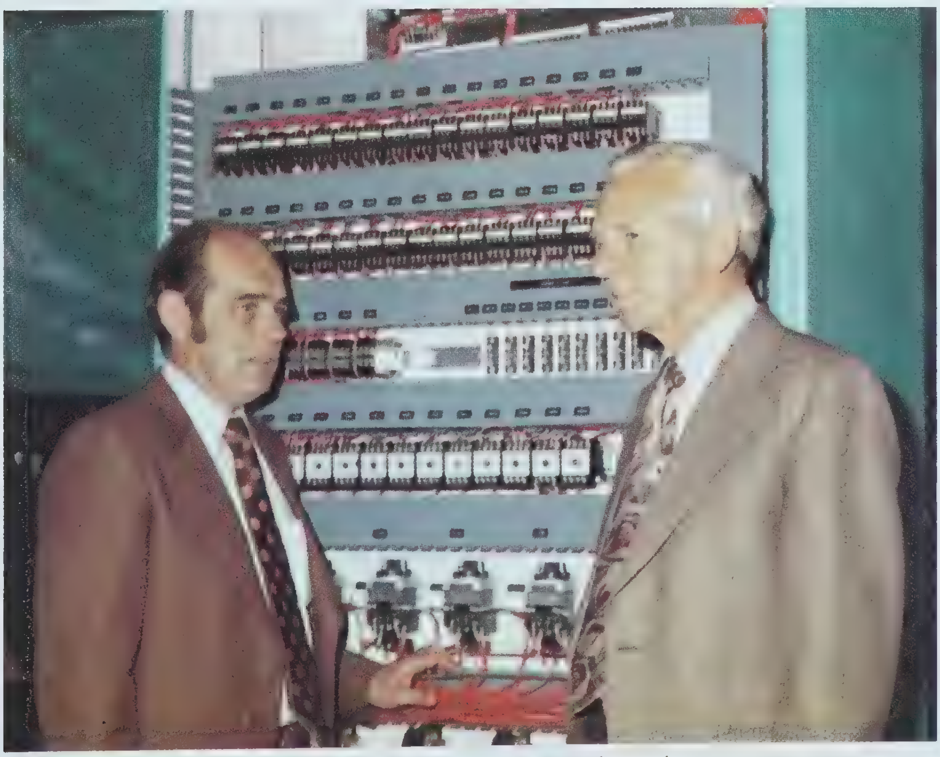
V. S. COPE, General Manager, Mainland Industrial Supply; J. R. NORTHEY, General Manager, Mainland Foundry & Engineering Ltd.

Mainland's foundry in Richmond, British Columbia.

Elworthy & Company Ltd., a wholly-owned subsidiary of Bow Valley in Burnaby, British Columbia, is involved in electrical engineering, manufacturing, installations, sale of equipment, repairs and motor rewinding principally for sawmill installations. The Company employs approximately 80 people in a plant and office facility of just under 15,000 square feet. During the current fiscal year the company opened a branch in Terrace, British Columbia, which operates a motor repair service branch together with a distribution point for electrical supply lines. Elworthy has also opened a warehouse sales operation in Edmonton, Alberta.

Although sales volume in the current year was slightly higher than that of the previous year, net profits were down by 50 percent. Elworthy's business is highly dependent on the sawmill industry which has not enjoyed a satisfactory business year. This has been largely due to vastly reduced housing starts and government policies that have discouraged private investment in British Columbia, particularly in the natural resource industries.

The early portion of next year's operations will still be affected by the same political and economic conditions referred to above, and there is a strong possibility of an extended labour strike in the sawmill industry. This could give rise to increased competition with resulting reduced profit margins in the forthcoming year.



C. S. SODERLING, General Manager; C. W. PLEDGER, formerly General Manager and now consultant to Elworthy & Company Ltd.

Elworthy designs and manufactures a variety of special electrical and electronic controls, electrical, pneumatic and hydraulic positioners and motor drives, primarily for the sawmill and lumber industry. With an increased sales program Elworthy contemplates a further expansion of product lines and geographical sales areas in the forthcoming year.

The Wesdrill division of Bow Valley is a Vancouver, British Columbia, manufacturer of diamond drill bits and related equipment for the mineral exploration industry. Division sales volume increased 35 percent during fiscal 1975, largely because of substantial increases in market penetration of eastern Canada, the United States and Mexico. Sales in British Columbia declined substantially, from 40 percent of total volume to 16 percent, due primarily to unfavourable provincial mining legislation.

Wesdrill employs 60 people in a 14,000-square foot manufacturing plant in Vancouver, British Columbia. In addition, Wesdrill Inc. has 15 employees in a newly established 8,600 square foot manufacturing plant in Phoenix, Arizona. Wesdrill has salesmen in Ontario, Quebec, Utah, Arizona and Mexico.

Wesdrill expects growth of sales and earnings to continue in fiscal 1976, especially in the United States market, and in the drill tubing and related equipment product lines.

J. W. SMYTH, Manager of Research & Development; W. A. RENNISON, General Manager; H. A. CARLSEN, Marketing Manager, Wesdrill Equipment.

Connors Drilling Inc., on location at Rifle, Colorado with their new "Wesdrill 60".

HEATING EQUIPMENT SALES

Fiscal 1975 was a year of varied results for Bow Valley's heating and air conditioning business. Because of reduced housing construction and a generally cool summer the demand for residential equipment did not meet expectations, resulting in lower sales. In the commercial, institutional and industrial markets, however, sales and profits were substantially higher than the previous year. This growth was primarily due to major product line additions — particularly large custom built roof-top units — and expanded market coverage in western Canada and Ontario. As a result, the combined sales of Flame-Master and Climate-Master were considerably above 1974 sales, and profits also increased by a satisfactory amount.

The order backlog for commercial equipment remained high at year end, with an increase of over 80 percent over the previous year. During the period currently under review, Flame-Master successfully completed its new plant addition and production facilities were relocated with a minimum of disruption. The new facility represents a substantial increase in production capacity and efficiency.

Climate-Master, which produces heating and air conditioning equipment for the commercial and industrial market, experienced a very successful year as new products became available and received excellent customer acceptance. Plans for additional productive capacity are now well advanced.

OILWELL DRILLING BITS

Bow Valley owns a 10.4 percent interest in Western Rock Bit Company Limited which manufactures a variety of bits for use in oil and gas wells and seismic drilling in Canada. Western sells fluid-end parts for slush pumps used in the oil well drilling business and manufactures a variety of hard-surfaced digger teeth for excavation and trenching equipment. The company also fabricates steel pressure vessels for sales to the liquified petroleum industry. Western's April 30th year end showed record sales and profits.

D. J. LUCK, General Sales Manager, Flame-Master;
E. L. SWEDBERG, Special Projects, Flame-Master;
J. A. LAW, General Manager, Flame-Master;
A. J. SOLIE, General Manager, Climate-Master.

Official opening of new Flame-Master plant facilities in Edmonton.

CONSOLIDATED BALANCE SHEET

May 31, 1975 and 1974 (Canadian Dollars)

ASSETS

	1975	1974 (restated)
Current assets		
Accounts receivable —		
Trade	$ 17,594,532	$14,343,586
Other	977,410	1,276,731
Inventories (Note 3)	14,504,857	9,381,441
Prepaid expenses	1,072,796	1,031,607
	34,149,595	26,033,365
Capital assets, at cost (Note 4)	87,478,201	70,456,939
Less: Accumulated depreciation and depletion	30,899,608	27,137,230
	56,578,593	43,319,709
Goodwill	4,344,911	4,101,249
Other assets and deferred charges		
Interest in Panarctic Oils Ltd., at cost (Note 5)	2,743,972	2,284,166
Interest in foreign partnership and incorporated joint venture, at equity value	2,356,388	1,262,298
Investments in and advances to other companies, at cost	759,228	615,957
Unamortized deferred charges	68,278	174,519
Sundry	439,027	400,094
	6,366,893	4,737,034
	$101,439,992	$78,191,357

APPROVED BY THE BOARD:

D K Seaman Director

Director

LIABILITIES

	1975	1974 (restated)
Current liabilities		
Operating bank loans, including cheques issued, at 9.25%, secured (Note 6)	$ 5,943,470	$ 6,887,793
Bankers' acceptances at 7%, secured (Note 6)	3,680,000	2,560,000
Accounts payable and accrued	13,649,860	9,525,297
Estimated income taxes payable	714,640	319,946
Long term debt due within one year	5,462,377	3,658,337
	29,450,347	22,951,373
Long term debt (Note 7)	27,913,053	16,125,692
Deferred revenue	46,286	117,350
Provision for major overhauls	549,029	526,167
Deferred income taxes	10,933,161	8,193,398
Shareholders' equity		
Share capital (Note 9)		
5½% cumulative redeemable preferred shares series A of a par value of $20 each — Authorized and issued — 100,000 shares Outstanding — 75,850 shares (1974 — 79,265 shares)	1,517,000	1,585,300
5% cumulative redeemable convertible second preference shares of a par value of $100 each — Authorized, issued and outstanding — 100,000 shares	10,000,000	10,000,000
Common shares of no par value — Authorized — 7,000,000 shares Issued and outstanding — 4,792,726 shares (1974 — 4,770,626 shares)	15,643,151	15,348,708
Capital redemption reserve fund, on redemption of preferred shares	483,000	414,700
Contributed surplus	131,088	103,749
Retained earnings (Note 10)	4,773,877	2,824,920
	32,548,116	30,277,377
Contingent liabilities and commitments (Note 12)		
	$101,439,992	$78,191,357

See notes to financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the years ended May 31, 1975 and 1974 (Canadian Dollars)

	1975	1974 (restated)
Revenue		
Forest products and mining equipment and foundry sales	$25,869,900	$20,503,821
Contract drilling — oil and gas	19,666,063	20,186,090
Sale of oilfield equipment, supplies and services	11,939,148	9,186,338
Pipeline construction and plant maintenance	11,432,234	7,250,587
Contract drilling — mining	9,978,747	5,603,605
Oil and gas sales, less royalties	4,921,857	3,500,040
Heating equipment sales	3,610,986	2,734,179
Aviation services	2,874,366	1,999,162
Pollution control equipment and services	2,002,271	1,517,319
Gain (loss) on trading of oil and gas properties	—	(73,145)
Other	1,645,469	1,018,383
	93,941,041	73,426,379
Costs and Expenses		
Direct costs	67,054,693	54,230,410
General and administrative	11,125,462	8,180,424
Depreciation	3,834,953	3,729,740
Depletion	1,367,647	1,266,165
Mining properties abandoned	90,750	36,664
Amortization of deferred charges	132,488	166,127
Interest —		
On long term debt	2,766,375	1,669,357
Other	1,054,080	827,441
	87,426,448	70,106,328
Income Before Income Taxes and Extraordinary Item	6,514,593	3,320,051
Taxes on Income (Note 8)		
Current	834,206	449,507
Deferred	2,877,281	1,219,770
	3,711,487	1,669,277
Income Before Extraordinary Item	2,803,106	1,650,774
Extraordinary Item		
Reduction of income taxes due to utilization of loss carry forwards in subsidiary companies	276,715	—
Net Income	$ 3,079,821	$ 1,650,774
Earnings per Common Share, based on the weighted average number of shares outstanding		
Income before extraordinary item	$ 0.46	$ 0.22
Extraordinary item	0.06	—
Net Income	$ 0.52	$ 0.22

See notes to financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended May 31, 1975 and 1974 (Canadian Dollars)

	1975	1974 (restated)
Source of working capital		
Operations —		
Income before extraordinary item	$ 2,803,106	$ 1,650,774
Add: net total of non-cash items including depreciation, depletion, mining properties abandoned, amortization of deferred charges, gains or losses on disposals of capital assets, deferred income taxes, and income of foreign partnership and incorporated joint venture	7,407,355	6,243,503
Working capital provided from operations before extraordinary item	10,210,461	7,894,277
Working capital provided from extraordinary item	139,196	—
Total working capital provided from operations	10,349,657	7,894,277
Share capital issued	294,443	88,901
Issue of long term debt	18,929,718	8,945,000
Other	1,108	9,597
	29,574,926	16,937,775
Application of working capital		
Additions to capital assets		
Land, buildings, drilling and other equipment	5,568,863	4,220,653
Oil and gas properties and equipment and mining properties (exclusive of oil and gas properties held for resale)	15,149,114	8,684,078
	20,717,977	12,904,731
Less: Proceeds of disposals	3,670,983	5,407,417
	17,046,994	7,497,314
Repayment of long term debt and change in current portion	7,103,762	7,229,994
Investment in subsidiary	267,500	—
Increase in investment in Panarctic Oils Ltd.	459,806	—
Increase in investment in foreign partnership and incorporated joint venture	872,655	100,000
Redemption of preferred shares	40,961	47,331
Dividends paid	1,062,564	1,065,664
Decrease in deferred revenue	71,064	67,995
Transfer of oil and gas properties and rights held for resale to capital assets	845,862	—
Other	186,502	312,824
	27,957,670	16,321,122
Increase in working capital	1,617,256	616,653
Working capital at beginning of year	3,081,992	2,465,339
Working capital at end of year	$ 4,699,248	$ 3,081,992

See notes to financial statements.

CHANGES IN COMPONENTS OF WORKING CAPITAL

For the years ended May 31, 1975 and 1974 (Canadian Dollars)

	1975	1974
Increase (Decrease) in Current Assets		
Cash, including deposit receipts	$ —	$ (784,733)
Accounts receivable —		
Trade	3,250,946	4,397,840
Other	(299,321)	60,606
Inventories	5,123,416	1,960,470
Prepaid expenses	41,189	284,761
Net increase in current assets	8,116,230	5,918,944
Increase (Decrease) in Current Liabilities		
Operating bank loans, including cheques issued	$ (944,323)	$3,101,403
Bankers' acceptances	1,120,000	760,000
Accounts payable and accrued	4,124,563	1,024,577
Estimated income taxes payable	394,694	185,094
Long term debt due within one year	1,804,040	231,217
Net increase in current liabilities	6,498,974	5,302,291
Increase in Working Capital	$1,617,256	$ 616,653

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the years ended May 31, 1975 and 1974 (Canadian Dollars)

	1975	1974 (restated)
Balance at beginning of year, as previously reported	$2,976,842	$2,389,804
Prior period adjustment to retroactively charge research and development costs to operations (Note 2)	151,922	90,494
Balance at beginning of year, as restated	2,824,920	2,299,310
Net income for the year	3,079,821	1,650,774
	5,904,741	3,950,084
Deduct		
Dividends paid —		
5½% preferred shares series A	85,396	88,724
5% second preference shares	500,000	500,000
Common shares ($0.10 per share)	477,168	476,940
Amount transferred to capital redemption reserve fund*	68,300	59,500
	1,130,864	1,125,164
Balance at end of year	$4,773,877	$2,824,920

*Pursuant to The Companies Act of Alberta

See notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The following accounting principles and practices of Bow Valley Industries Ltd. and subsidiary companies ("Bow Valley") are set forth to facilitate the understanding of data presented in the financial statements.

Principles of consolidation:

The consolidated financial statements include the accounts of Bow Valley Industries Ltd. and its subsidiaries, all of which are wholly-owned, as well as Bow Valley's share of assets and liabilities, revenues and expenses of an unincorporated joint venture and three partnerships. Bow Valley's 50% interest in an incorporated joint venture and a 20% foreign partnership interest are accounted for by the equity method, and the results of their operations are included in the consolidated financial statements on the basis of December 31, 1974 financial statements, which is the year end of both entities.

Capital assets (excluding oil and gas properties) and depreciation:

Bow Valley provides depreciation mainly by the diminishing balance method at various rates based on the estimated useful lives of the assets. Additions, improvements and repairs and maintenance that significantly add to productive capacity or extend the life of an asset are capitalized. Other expenditures for repairs and maintenance are charged to income as incurred.

Oil and gas properties and depletion:

Bow Valley follows the full cost method of accounting whereby all costs relating to the exploration for and development of oil and gas reserves, including exploration overhead, are capitalized whether productive or unproductive. Depletion is computed on such costs by the unit of production method based on the estimated proven reserves of oil and gas. No gains or losses are ordinarily recognized upon the sale or disposition of oil or gas properties held for development purposes except under circumstances which result in major disposals of reserves. Gains or losses from the sale or disposition of oil and gas properties and rights held for resale are included in the consolidated statement of income.

Goodwill:

Goodwill acquired prior to fiscal 1972 in the amount of $3,920,752 is shown in the consolidated financial statements at cost. Management believes there are no reasons to expect any significant decrease in the value of this intangible asset and accordingly does not contemplate any amortization. Goodwill acquired subsequent to fiscal 1971 is being amortized over twenty years using the straight-line method and is shown at unamortized cost.

Provision for major overhauls:

The provision for major overhauls relates mainly to Bow Valley's helicopter operations and is calculated on the basis of hours of aircraft operation. Actual costs, when incurred, are charged against such provision.

Income taxes:

Bow Valley follows the tax allocation method of accounting for income taxes. Under this method Bow Valley provides for income taxes deferred as a result of claiming capital cost allowances, oil and gas lease acquisition, exploration and drilling costs and other allowable expenses for tax purposes in excess of the amounts written off in the accounts.

2. Changes in Accounting Policies

During fiscal 1974, as required by a ruling of the Canadian Provincial Securities Administrators, Bow Valley retroactively adopted the tax allocation method of accounting for income taxes. As a result of this change the 1974 provision for income taxes was increased by $1,154,000 ($0.24 per share), resulting in a corresponding decrease in net income. The cumulative effect of this change was to decrease retained earnings at the beginning of fiscal 1974 by $6,517,457.

During fiscal 1975 Bow Valley retroactively adopted the policy of charging current research and development expenditures to operations. This change had the effect of decreasing net income for fiscal 1974 by $61,428 ($0.01 per share); there was no material effect on net income for fiscal 1975.

3. Inventories

Inventories, which are valued at the lower of cost or net realizable value, consist of the following:

	1975	1974
Finished goods	$ 7,002,587	$4,168,240
Work in progress	1,606,116	914,057
Raw materials	1,375,302	1,176,660
Materials and supplies	4,520,852	2,276,622
Oil and gas properties and rights held for resale	—	845,862
	$14,504,857	$9,381,441

4. Capital Assets

	1975			1974
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Land	$ 645,985	$ —	$ 645,985	$ 573,940
Buildings	3,638,436	698,992	2,939,444	2,249,057
Leasehold improvements	777,774	184,200	593,574	166,034
Office equipment	913,557	438,848	474,709	263,055
Automotive equipment	2,367,944	1,291,680	1,076,264	948,118
Drilling and related equipment	18,548,253	11,802,211	6,746,042	7,747,063
Manufacturing plant and equipment	3,141,429	1,464,706	1,676,723	1,255,147
Helicopters and related equipment	2,448,165	585,902	1,862,263	2,026,492
Sales and service equipment —				
Construction	2,546,001	1,572,764	973,237	782,219
Pollution control	490,633	248,593	242,040	323,405
Other	44,625	20,379	24,246	73,129
Oil and gas properties and equipment	51,915,399	12,591,333	39,324,066	26,912,050
	$87,478,201	$30,899,608	$56,578,593	$43,319,709

5. Interest in Panarctic Oils Ltd.

Bow Valley has a 2.22% interest in Panarctic Oils Ltd. (a company organized by private industry and the Government of Canada to explore for oil and gas in the Arctic Islands of Canada) the cost of which amounted to $2,743,972 at May 31, 1975. Bow Valley has not subscribed for additional shares in the 1975 Panarctic Oils financing. Panarctic Oils Ltd. is, at present, in the exploratory stage of operations. The most recent published financial statements indicate that all costs and expenses have been capitalized and that Panarctic Oils Ltd. is deemed to have realized no profit and sustained no loss to December 31, 1974.

Panarctic Oils Ltd. shares are closely held, are not generally traded and no quoted market value exists. In the opinion of management the fair value of Bow Valley's interest exceeds cost.

6. Bank Loans and Bankers' Acceptances

Operating bank loans and Bankers' Acceptances are secured by a $2,000,000 floating charge demand debenture on the current assets of a subsidiary and various chattel mortgages. In addition, Bow Valley has granted the bank general assignments of accounts receivable and pledged certain inventories under Section 88 of The Bank Act.

7. Long Term Debt

	1975	1974
Bow Valley Industries Ltd.		
7% Sinking Fund Debentures Series "A" due March 1, 1986, redeemable with annual sinking fund instalments of $158,000 in each of the years 1976 to 1986 inclusive (Authorized — $4,000,000)	$ 2,559,000	$ 2,727,000
Bank loans, at current interest rates — 9.5% to 10.5%, repayable at the rate of $281,000 per month to January 1976 and $481,000 per month thereafter*	28,144,814	14,450,667
10.7% mortgage payable in annual instalments of $26,760	111,499	138,260
Other notes payable, 1976 to 1977	35,000	60,000
	30,850,313	17,375,927
Subsidiaries		
Bank loans, at current interest rates — 10.5%, repayable at the rate of $52,000 per month, secured by parent company (Bow Valley Industries Ltd.) guarantee and by chattel mortgages on equipment*	2,314,257	2,216,190
4% Note payable due in 1976, secured by parent company (Bow Valley Industries Ltd.) guarantee	66,036	131,608
Other	144,824	60,304
	2,525,117	2,408,102
Total long term debt	33,375,430	19,784,029
Less: Amount due within one year	5,462,377	3,658,337
	$27,913,053	$16,125,692

*The terms of the bank loans extend up to 1980, but the banks reserve the right to call the loans on demand. The 7% Sinking Fund Debentures Series "A" are secured by a first floating charge on all of Bow Valley's undertaking subject to permitted encumbrances.

The aggregate maturities of long term debt in each of the five years subsequent to May 31, 1975 are as follows: 1976 — $5,462,377; 1977 — $6,576,382; 1978 — $5,961,390; 1979 — $5,683,322; 1980 — $5,288,166.

8. Income Taxes

On November 18, 1974, the Canadian Government introduced amendments to the Income Tax Act. These included a number of changes, several having retroactive effect to the date of an earlier budget on May 6, 1974, that substantially increase the income taxes of the resource industries. The amendments deny the deduction of royalties and similar payments to governments and impose limitations on the deduction of certain development expenses and on depletion allowances; they are accompanied by some reduction in the rate of income tax applicable to resource production profits. Responding to this action, some Provinces have indicated their intentions to make tax rebates and credits of other than a tax nature in order to provide some measure of relief to resource companies from the additional Federal tax levies. Although all the legislative amendments have not yet been enacted, and indeed some of the proposals have not yet been set out in sufficient detail to remove doubt as to their ultimate effect, the 1975 income tax provision in the financial statements has been computed on the basis of taking them into account on the best information available.

In fiscal 1975 total tax expense recorded in the financial statements amounted to $3,711,487 (an effective rate of 57%), which exceeds the amount of $3,166,000 computed by applying the Canadian corporate tax rate, for the year ended May 31, 1975, of 48.6% to income before provision for income taxes. This difference is accounted for as follows:

	$ (thousands)
Computed income tax expense	3,166
Add (deduct):	
Crown charges disallowed for tax purposes	817
Resource profits rate reductions	(232)
Provincial resource industry rebates	(465)
Federal surtax for 1975	247
Other	178
Tax expense reflected in the accounts	3,711

In fiscal 1974 total tax expense, as restated, amounted to $1,669,277 (an effective rate of 50.3%), which exceeds the amount of $1,643,000 computed by applying the Canadian corporate tax rate for the year ended May 31, 1974, of 49.5% to income before income taxes. This difference is accounted for as follows:

	$ (thousands) (restated)
Computed income tax expense	1,643
Add (deduct):	
Operating losses of subsidiary companies against which no tax credits were reflected	322
Capital gains not subject to tax	(102)
Deduction for tax purposes in respect of investment in Panarctic Oils Ltd.	(156)
Other	(38)
Tax expense reflected in the accounts	1,669

The deferred income tax expense of $2,877,281 (1974 — $1,219,770) results from timing differences in the recognition of revenues and expenses for tax and financial statement purposes. The main components of these differences, and the tax effect thereof, are as follows:

	$ (thousands)	
	1975	1974 (restated)
Excess of capital cost allowance for tax purposes over depreciation	1,264	283
Excess of drilling and exploration expenditures for tax purposes over depletion	1,755	761
Other	(142)	176
	2,877	1,220

9. Share Capital, Share Purchase Warrants and Share Options

Bow Valley is required to expend $40,000 per year (or such lesser amount as would increase the fund to $80,000) on a series "A" preferred share purchase fund for redemption or retirement of its 5½% cumulative redeemable preferred shares series "A", provided such shares are available in the open market for purchase at a price not exceeding their par value plus reasonable cost of acquisition. The series "A" preferred shares are subject to

redemption at any time at $21 per share. On liquidation, dissolution or winding up they rank prior to the common and second preference shares and holders are entitled to receive $21 per share plus accrued unpaid dividends.

The 5% cumulative redeemable convertible second preference shares of a par value of $100 each are convertible at any time prior to April 2, 1979, into common shares at an initial conversion price of $30 per common share (3-1/3 common shares for one preference share). These shares rank junior to the series "A" preferred shares and are subject to redemption at $105 per share, plus accumulated unpaid dividends, except that during the period to April 1, 1979 redemptions are subject to deferral under certain conditions.

On or before March 31 in each year, commencing with the year 1980, Bow Valley is required to set aside as a sinking fund an amount equal to 5% of the par value of the second preference shares outstanding at the close of business on April 1, 1979 for the purpose of either redeeming or purchasing the shares.

The following table sets out the change in issued common share capital during the two years ended May 31, 1975:

	Number of Shares	Amount
Balance, May 31, 1973	4,766,396	$15,259,807
Shares issued for cash upon exercise of options	4,230	88,901
Balance, May 31, 1974	4,770,626	15,348,708
Shares issued for cash upon exercise of options	2,100	26,943
Shares issued as further consideration for the acquisition of Western Research & Development Ltd.	20,000	267,500
Balance, May 31, 1975	4,792,726	$15,643,151

Of the authorized but unissued common shares, 527,698 were reserved at May 31, 1975 for the following:

(a) Options granted, or to be granted, up to an aggregate of 194,365 common shares of Bow Valley to officers and employees of Bow Valley under the terms of the Bow Valley Industries Ltd. Incentive Stock Option Plan.

(b) 5% cumulative redeemable convertible second preference shares convertible into initially 333,333 common shares of Bow Valley.

As at May 31, 1975, the details of common shares under option are as follows:

Date Granted	Number of Shares	Option Price Per Share	Option Price Total	Market Value at Date of Grant Per Share	Market Value at Date of Grant Total
February 23, 1971	3,750	$16.03	$ 60,113	$16.875	$ 63,282
June 14, 1971	250	21.61	5,403	22.75	5,688
September 29, 1971	500	25.89	12,945	27.25	13,625
November 30, 1971	58,040	23.87	1,385,415	25.15	1,459,706
May 18, 1972	6,200	28.74	178,188	30.25	187,550
December 11, 1972	2,100	41.09	86,289	43.25	90,825
March 15, 1973	1,500	33.61	50,415	35.375	53,063
June 6, 1973	19,200	25.18	483,456	26.50	508,800
May 29, 1974	43,350	17.81	772,064	18.75	812,813
April 22, 1975	49,400	15.08	774,952	15.65	773,110
	184,290				

The following table sets out details regarding options exercised during the two years ended May 31, 1975:

Year Ended	Date Granted	Number of Shares	Option Price Per Share	Option Price Total	Market Value at Date of Exercise Per Share	Market Value at Date of Exercise Total
May 31, 1974:	May 5, 1969	1,650	$25.89	$42,719	$31.50 to 36.125	$ 59,094
	November 13, 1969	200	17.50	3,500	38.50	7,700
	May 12, 1970	250	12.83	3,207	26.50 to 28.00	6,925
	February 23, 1971	1,450	16.03	23,244	26.875 to 37.875	45,219
	November 30, 1971	680	23.87	16,231	26.75 to 35.50	19,930
		4,230		$88,901		$138,868
May 31, 1975:	May 12, 1970	2,100	$12.83	$26,943	$13.75 to 16.50	$ 32,051

Options are exercisable within a period of five years from the date of grant or one year from the date of death of an optionee. The value assigned to the shares on the exercise of options is the option price multiplied by the number of shares issued. No charges are made against income.

10. Restrictions on Dividends

Under the terms of the Trust Deed for the 7% Sinking Fund Debentures Series "A" of Bow Valley Industries Ltd. and the terms of the series "A" preferred shares, dividends on common shares shall not be declared or paid:

(a) If after giving effect to such declaration or payment, the aggregate of the consolidated retained earnings and capital surplus of Bow Valley will be less than $3,000,000; and

(b) Unless after giving effect to such dividends the amount of the consolidated retained earnings will be at least 125% of the par value of all of the series "A" preferred shares and all preferred shares ranking in priority thereto or equally therewith then issued and outstanding.

At May 31, 1975 approximately $2,388,000 of the consolidated retained earnings, capital redemption reserve fund and contributed surplus were free of these restrictions.

11. Remuneration of Directors and Senior Officers

During fiscal 1975, there were ten directors (including two past directors) and thirteen officers (including one past officer) of whom seven were also directors (1974 — eleven directors and eight officers, of whom six were also directors). Directors' fees and officers' remuneration for the year amounted to $6,811 and $533,167 respectively (1974 — $9,000 and $308,992 respectively). Officers who are also directors receive no remuneration in their capacity as directors.

12. Contingent Liabilities and Commitments

At May 31, 1975 Bow Valley was contingently liable as follows:

(a) For the liabilities of the co-owners in the joint ventures and partnerships, but against which Bow Valley would have a claim against the other co-owners and the interest of the co-owners in the joint venture and partnership assets.

(b) As guarantor of the indebtedness of third parties and discounted conditional sales contracts in the amount of approximately $4,700,000.

(c) As co-guarantor of payments under a two year contract expiring in June 1976 for the rental of the semi-submersible drilling rig "Odin Drill" (which payments are made to a limited partnership in which Bow Valley has a 20% interest) aggregating approximately $9,500,000 per year. As co-guarantor of rental payments under two year contracts expiring at various dates in 1976 for the support fleet for the semi-submersible drilling rig "Odin Drill" aggregating approximately $5,500,000 per year.
It is estimated that present contracts for the drill will be completed in November 1975. Efforts are being made to obtain additional contracts for the balance of the guarantee period.

(d) Bow Valley has issued non-interest bearing demand promissory notes in the amount of $3,000,000 to a foreign government to be held as work performance deposits in respect of exploratory rights.

There are outstanding claims against a subsidiary (Bow Helicopters Ltd.) in the amount of approximately $650,000 relating to an accident in July 1969. Counsel for the insurers have taken the position that these claims do not fall within the coverage afforded by the applicable liability policies, but this position has been disputed. Bow Valley's legal counsel is of the opinion that the subsidiary has a meritorious defence and should prevail at trial.

AUDITORS' REPORT

To the Shareholders of
BOW VALLEY INDUSTRIES LTD.

We have examined the consolidated balance sheet of Bow Valley Industries Ltd. and subsidiary companies as at May 31, 1975 and 1974 and the consolidated statements of income, retained earnings and changes in financial position for the two years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the two years then ended, in accordance with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for research and development costs as described in Note 2 to the financial statements.

PRICE WATERHOUSE & CO.
Chartered Accountants

CALGARY, Alberta
July 4, 1975

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF EARNINGS

Fiscal 1975 Compared to Fiscal 1974

Contract drilling (mining) revenues and expenses increased substantially owing to the acquisition of certain of the branches of Inspiration Drilling Operations, a division of Dresser Industrial Products, Ltd. which more than doubled the number of drills Bow Valley operates. Oil and gas well drilling activity was reduced but an efficient operation resulted in higher earnings.

Foundry and engineering sales increased but inflationary costs more than offset the gain and a lower profit was recorded.

The pipeline construction and plant maintenance subsidiaries increased revenues and profits by acquiring a water and sewer contract as well as a pulp and paper plant maintenance contract.

Revenues and profits from the aviation service subsidiary increased substantially owing to the strategic location of helicopters and a high level of support work for fighting forest fires.

Heating equipment sales and expenses were higher owing to larger plant facilities and a more active selling program in the commercial and industrial markets.

Oilfield equipment and supplies revenue and profit increased because of the availability to the supply divisions of pipe and other material that was generally in short supply.

Provision for income tax has increased substantially because of the non-deductibility of royalties resulting from new income tax legislation effective May 6, 1974. Bow Valley's tax rate in fiscal 1975 was 57%.

Increased activity in the oil and gas division required an increase in bank borrowings, resulting in substantially higher interest costs.

Fiscal 1974 Compared to Fiscal 1973

New equipment and larger facilities increased revenues and expenses in the forest products and mining equipment and foundry sales operations.

Higher crude oil and natural gas prices increased revenue in 1974. Government restrictions on oil and gas exports reduced pipeline construction. Heating equipment sales decreased because of material shortages and a general decline in housing construction.

Fiscal 1973 Compared to Fiscal 1972

Increased drilling activity and additional equipment resulted in substantially higher oilwell drilling and supply revenue and expenses. Pipeline construction activity was also high but a wet summer resulted in very little profit. The wet summer also reduced firefighting work by the aviation service subsidiary.

Stock Price

The following table indicates the quarterly high bid and low bid prices for the common stock of the Company on the Toronto Stock Exchange for the last two fiscal years of the Company.

	Fiscal 1975		Fiscal 1974	
First Quarter	22⅛	13¼	37	26
Second Quarter	15½	8¾	40¾	29⅝
Third Quarter	14¾	9	30⅞	24½
Fourth Quarter	18⅛	12⅜	32¾	16

RELATIVE CONTRIBUTIONS OF LINES OF BUSINESS*

(Unaudited)
(thousands of Canadian dollars)
Year Ended May 31,

REVENUE AND SALES	1975		1974		1973		1972		1971	
Contract drilling — oil and gas and mining	$29,645	32%	$25,790	35%	$23,167	38%	$17,159	36%	$16,640	41%
Forest products and mining equipment, heating equipment and foundry sales	29,481	31%	23,238	32%	16,361	26%	13,913	29%	9,626	24%
Sale of oilfield equipment, supplies and services	11,939	13%	9,186	12%	7,435	12%	4,975	10%	4,690	12%
Oil and gas sales, less royalties	4,799	5%	3,427	5%	2,567	4%	2,824	6%	2,388	6%
Aviation services	2,874	3%	1,999	3%	1,782	3%	2,508	5%	2,316	6%
Pipeline construction and plant maintenance	11,432	12%	7,251	10%	8,453	14%	5,220	11%	2,583	6%
Other, including pollution control	3,771	4%	2,535	3%	1,957	3%	1,594	3%	1,961	5%
	$93,941	100%	$73,426	100%	$61,722	100%	$48,193	100%	$40,204	100%

INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	1975		1974		1973		1972		1971	
Contract drilling — oil and gas and mining	$ 2,878	44%	$ 1,753	53%	$ 1,477	84%	$ 20	2%	$ 870	43%
Forest products and mining equipment, heating equipment and foundry sales	1,225	19%	1,801	54%	1,144	65%	778	67%	500	25%
Sale of oilfield equipment, supplies and services	721	11%	264	8%	97	5%	(94)	(8%)	(37)	(2%)
Oil and gas sales, less royalties	(710)	(11%)	(740)	(22%)	(895)	(51%)	(496)	(43%)	(277)	(14%)
Aviation services	381	6%	(384)	(12%)	(656)	(37%)	122	11%	307	15%
Pipeline construction and plant maintenance	763	12%	(65)	(2%)	18	1%	303	26%	(60)	(3%)
Other, including pollution control	1,256	19%	691	21%	581	33%	529	45%	701	36%
	6,514	100%	3,320	100%	1,766	100%	1,162	100%	2,004	100%
Unallocated general and administrative expense	—		—		—		—		(1,128)	
	$ 6,514		$ 3,320		$ 1,766		$ 1,162		$ 876	

The above table indicates the approximate relative contributions of Bow Valley's various businesses to its consolidated revenue and income before income taxes and extraordinary items. The compilation has been prepared by management and has not been subject to independent verification by Bow Valley's auditors. Prior to fiscal 1972 Bow Valley did not maintain records of its head office general and administrative expenses by various business lines and does not believe that such expenses were incurred in proportion to the revenues or cost of sales or operating expenses of these various businesses. For this reason Bow Valley's head office general and administrative expenses cannot be allocated among its various business lines for fiscal 1971. For fiscal 1972 through 1975, however, all general and administrative expenses were allocated to the various lines of business.

* As restated for pooling of interests and prior period adjustments including the retroactive change in accounting for research and development expenditures.

FIVE YEAR SUMMARY*

(thousands of Canadian dollars, except for per share amounts)

	1975	1974	1973	1972	1971
Revenue	$93,941	$73,426	$61,722	$48,193	$40,204
Costs and expenses					
Direct costs	67,055	54,230	46,334	36,065	29,274
General and administrative	11,125	8,181	7,198	6,027	5,386
Depreciation, depletion and amortization of deferred charges	5,336	5,162	4,868	3,938	3,685
Mining properties abandoned	91	37	75	9	77
Interest — on long term debt	2,766	1,669	1,025	587	508
— other	1,054	827	456	405	398
	87,427	70,106	59,956	47,031	39,328
	6,514	3,320	1,766	1,162	876
Taxes on income					
Current	834	449	225	98	220
Deferred	2,877	1,220	524	519	247
	3,711	1,669	749	617	467
Income before extraordinary items	2,803	1,651	1,017	545	409
Extraordinary items	277	—	66	208	(642)
Net income (loss)	3,080	1,651	1,083	753	(233)
Deduct — Preferred share dividend requirements	586	589	592	594	598
Net income (loss) applicable to common shares	$ 2,494	$ 1,062	$ 491	$ 159	$ (831)
Weighted average shares outstanding	4,771,822	4,768,873	4,759,683	4,694,731	4,544,507
PER COMMON SHARE					
Income before extraordinary items	$ 0.46	$ 0.22	$ 0.09	$ (0.01)	$ (0.04)
Extraordinary items	0.06	—	0.01	0.04	(0.14)
Net income	$ 0.52	$ 0.22	$ 0.10	$ 0.03	$ (0.18)
Dividends per share					
Common	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10
Preferred, series A	1.10	1.10	1.10	1.10	1.10
Second preference	5.00	5.00	5.00	5.00	5.00
Shares outstanding at year end					
Common	4,792,726	4,770,626	4,766,396	4,753,064	4,630,484
Preferred, series A	75,850	79,265	82,240	84,640	87,540
Second preference	100,000	100,000	100,000	100,000	100,000

* As restated for pooling of interests and prior period adjustments including the retroactive change in accounting for research and development expenditures.

MRS. W. S. HULTON presenting a cheque to ROBERT K. MILLER, the 1975 winner of the WILLIAM S. HULTON MEMORIAL SCHOLARSHIP FUND. The late William S. Hulton was a long-time Director of the Company.

Sons and daughters of employees of Bow Valley's Vancouver-based companies are eligible for the Scholarship and this year's winner is the son of R. V. MILLER, a Division Manager of Connors Drilling Ltd.

Bow Valley Industries Ltd.

1975
ANNUAL REPORT

lawson graphics western limited
Litho'd in Canada

AR31

Bow Valley Industries Ltd. and subsidiary companies

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

	Six months to Nov. 30, 1975	Six months to Nov. 30, 1974 (Restated)**
SOURCE OF WORKING CAPITAL		
Operations:		
Net income	$ 958,007	$ 1,931,005
Add — non-cash charges including depreciation and depletion, mining properties abandoned, amortization of deferred charges, gains or losses on disposals of capital assets and deferred taxes on income	3,951,567	3,655,571
Working capital provided from operations	4,909,574	5,586,576
Share capital issued for cash, less expenses	—	1,300
Issue of long term debt	9,195,872	6,252,814
Repayment of advances to other companies	684,848	—
Other	5,369	5,436
	$14,795,663	$11,846,126
APPLICATION OF WORKING CAPITAL		
Additions to capital assets		
Land, buildings, drilling and other equipment	$ 3,132,377	$ 2,665,520
Oil and gas properties and equipment and mining properties	7,832,833	6,967,611
	10,965,210	9,633,131
Less - proceeds of disposals	2,323,990	1,515,212
	8,641,220	8,117,919
Repayment of long term debt and change in current position	3,348,906	2,938,954
Decrease in deferred revenue	136,491	27,239
Investment in subsidiary companies, less working capital	229,374	—
Increase in investment in and advances to other companies	331,140	335,452
Dividends paid	531,354	532,127
Other	59,894	192,547
	$13,278,379	$12,144,238
INCREASE (DECREASE) IN WORKING CAPITAL	$ 1,517,284	$ (298,112)
WORKING CAPITAL AT BEGINNING OF YEAR	4,699,248	3,081,992
WORKING CAPITAL AT END OF PERIOD	$ 6,216,532	$ 2,783,880

INTERIM REPORT

TO

SHAREHOLDERS

SIX MONTHS ENDED
NOVEMBER 30, 1975

File

Bow Valley Industries Ltd.

ALCRAFT · CALGARY
LITHOGRAPHED IN CANADA

TO THE SHAREHOLDERS OF
BOW VALLEY INDUSTRIES LTD.

Net income for the six months ended November 30th, 1975 decreased to $958,000 or 16¢ per share as compared to $1,931,000 or 34¢ per share in the first half of fiscal 1975.

Depressed market conditions in the forest products industry have been the largest factor in reducing Bow Valley's earnings. Interest costs are also much higher than a year ago following the Board of Directors' decision to borrow additional bank funds rather than use the proceeds of an equity financing to maintain the Company's exploration program, especially in the North Sea. The oilfield service and supply, aviation service, and pipeline construction operations, while profitable, have been unable to attain the record performances achieved a year ago. There are indications that certain of these operations will improve in the second half of fiscal 1976. The petroleum and mining drilling divisions continue to enjoy a high level of activity.

On December 1st, 1975, Bow Valley acquired the assets of Chipper Machines and Engineering Corporation of Portland, Oregon. The operation will be closely integrated with Bow Valley's subsidiary, Mainland Foundry & Engineering Ltd., and should further allow for expansion in the manufacture and supply of equipment and products for the forest, construction, and mining industries.

In the United Kingdom sector of the North Sea, the Brae appraisal well 16/7-3, in which Bow Valley has a 28 percent interest, was spudded on October 8th, 1975. The well has penetrated the Upper Jurassic reservoir that produced oil and gas in the discovery well and preparation for an extensive testing program is now underway. In Block 25/4 in Norwegian waters, Bow Valley has an 8 percent interest in the Heimdal field. Final application for landing Heimdal gas in the United Kingdom has been deferred until later in the year pending further studies of the project.

Offshore Abu Dhabi, Bow Valley has a 10 percent interest in Arzanah No. 4 which was completed as a successful Jurassic appraisal well on December 17th, 1975. The latest well tested oil from two zones at 5,534 barrels of oil per day and 4,768 barrels of oil per day, respectively, and showed better flow characteristics than the earlier wells. Plans for the proposed development of the field are presently under review.

In southern Bolivia, about 200 miles south of Santa Cruz, Bow Valley has a 25 percent interest in a 2.5 million-acre contract area. The first well in a three-well exploration program spudded January 22, 1976 and will be drilled to about 7,200 feet to test several Cretaceous reservoirs.

In the Mackenzie Delta, Sun Oil Company Limited drilled the Garry P-04 well to 11,000 feet and completed the well as an oil and gas discovery in December 1975. Results of extensive testing indicate a total net hydrocarbon bearing section of 330 feet with gas flow rates of 14,000,000 cubic feet per day and 17,000,000 cubic feet per day from two different zones. An oil zone was tested over a short flow period at a rate of 7,920 barrels per day. Bow Valley earned a small overriding royalty on this well as the target area was located within the adjacent Chevron permit. Following this discovery, Sun must drill a Garry confirmation well on Bow Valley's Permit W-949 and plans are presently being formulated for the 1976/1977 drilling season.

In Alberta, the Wandering River gas gathering and processing system is being completed on schedule and should commence production on April 1, 1976 at about 30,000,000 cubic feet per day. Bow Valley has approximately a 60 percent interest in this new field. This additional production should double the Company's current gas revenues.

Calgary, Alberta
January 26th, 1976

D. K. SEAMAN
President

CONSOLIDATED STATEMENT OF INCOME

	3 months to Nov. 30, 1975	3 months to Nov. 30, 1974	6 months to Nov. 30, 1975	6 months to Nov. 30, 1974
		(Restated)**		(Restated)**
INCOME				
Contract drilling	$ 9,084,665	$ 7,389,338	$17,633,992	$14,236,063
Forest products and mining equipment and foundry sales	6,185,580	6,903,472	12,972,494	12,887,003
Pipeline construction and plant maintenance	5,081,080	3,877,800	6,751,264	5,850,036
Sale of oilfield equipment, supplies and services	2,111,424	4,221,917	4,212,874	6,862,344
Oil and gas sales, less royalties	1,644,530	1,026,976	2,990,883	2,140,100
Heating equipment sales	1,340,005	967,329	2,567,257	1,753,449
Aviation services	567,485	612,197	2,075,952	2,070,749
Pollution control equipment and services	439,865	538,974	976,392	999,564
Administrative and other income	(32,518)	(64,851)	315,576	269,148
Gain on disposal of capital assets	36,699	(18,785)	153,769	354,964
Investment income	22,862	20,447	39,269	68,860
	26,481,677	25,474,814	50,689,722	47,492,280
EXPENSES				
Operating, general and administrative, interest and amortization of deferred charges	24,634,827	22,584,445	45,794,521	41,209,200
OPERATING INCOME BEFORE DEPRECIATION AND DEPLETION	1,846,850	2,890,369	4,895,201	6,283,080
Depreciation	1,006,058	865,427	2,012,646	1,817,159
Depletion	463,953	418,416	948,432	798,593
	1,470,011	1,283,843	2,961,078	2,615,752
INCOME BEFORE TAXES	376,839	1,606,526	1,934,123	3,667,328
Taxes on income – Current	(160,826)	596,273	157,308	795,641
– Deferred	358,933	77,142	818,808	940,682
	198,107	673,415	976,116	1,736,323
NET INCOME	$ 178,732	$ 933,111	$ 958,007	$ 1,931,005
Average number of common shares outstanding	4,792,726	4,770,626	4,792,726	4,770,626
CASH FLOW after preferred and preference dividends	$ 2,002,604	$ 2,277,728	$ 4,617,856	$ 5,293,177
PER COMMON SHARE*				
Net income	1¢	16¢	14¢	34¢

* Based on average number of common shares outstanding and after dividend requirements on Series "A" Preferred Shares and Second Preference Shares.

** As a result of substantially increased exploration activity in foreign areas Bow Valley has modified its full cost method of accounting for oil and gas operations by forming separate cost centres for significant areas of interest outside of North America and for Frontier North America (Arctic and offshore). Under this method North America, which is presently the only producing area, continues to be depleted using the unit of production method, while areas which do not have established commercial reserves of oil and gas are amortized by the straight-line method at the rate of 10%. When production commences in these other areas the unamortized costs will be depleted by the unit of production method. If exploration is discontinued in an area the unamortized costs in that area will be charged against income. Prior to this change Bow Valley followed the full cost method of accounting using only one cost centre. The revised method is one which has recently been adopted by a large number of companies having significant operations abroad.
This change, which has been adopted retroactively, had the effect of reducing the first half earnings by $112,254. The comparative six months earnings for the period ended November 30, 1974 as restated, have been reduced by $37,882.

The above figures are subject to audit.